THEMATIC ANALYSIS OF STOCKHOLDER ACTIVISM: ISSUES, LEGITIMACY, AND POWER IN INVESTOR RELATIONS

A Thesis
Presented to
The Faculty of the School
of Communication
University of Houston

In Partial Fulfillment
of the Requirements for the Degree of
Master of Arts

---

by

Denily Acosta Izzo

August 2017

THEMATIC ANALYSIS OF STOCKHOLDER ACTIVISM:

ISSUES, LEGITIMACY AND POWER IN INVESTOR RELATIONS

Denily Acosta-Izzo. Student

APPROVED:

Jennifer Vardeman-Winter, Ph.D.
Committee Chair

Erica Ciszek, PhD.

Daniel Perez-Liston, Ph.D.
University of St. Thomas

Antonio D. Tillis, Ph.D.
Dean, College of Liberal Arts and Social Sciences
Department of Hispanic Studies

THEMATIC ANALYSIS OF STOCKHOLDER ACTIVISM: ISSUES, LEGITIMACY, AND POWER IN INVESTOR RELATIONS

An Abstract of a Thesis
Presented to
The Faculty of the School
of Communication
University of Houston

In Partial Fulfillment
of the Requirements for the Degree of
Master of Arts

by

Denily Acosta Izzo

August 2017

ABSTRACT

The purpose of this study was to examine the concept of stockholder activism as an area for development in financial public relations scholarship. The study was conducted applying a thematic analysis of online texts related to a case. In this communication study, business and communication research provided the framework to investigate (1) what themes emerged from the *valeantnow.com* posts in the context of the Valeant crisis, (2) what themes emerged from the messages activist investors sent to the financial community, and (3) what themes emerged from the news generated during this interaction between Valeant and two activist investors to analyze how stockholder activism shapes the practice of investor relations. Practical implications include strategic knowledge investor relations professionals can use to prevent and/or respond to stockholder activism.

Acknowledgements

The first step of any journey is always the hardest one. When I expressed my interest in researching investor relations, which was not a popular topic in communications studies, my first challenge was to engage my professors in a discussion that had been dominated by business scholars. This thesis would not have been possible without the support of Dr. Jennifer Vardeman-Winter, Dr. Erica Ciszek, and Dr. Daniel Perez who encouraged me to follow my research interest in investor relations in spite of the challenge it represented.

I thank Dr. Vardeman-Winter for her patience and support in every step of this journey and for sharing her expertise in public relations which was essential to frame this study.

I thank Dr. Ciszek for her guidance and support that enabled me to develop the methodology of this research and a better understanding of the subject.

I thank Dr. Perez for providing the business insight in this project by sharing his knowledge in financial management.

Table of Contents

List of Figures

List of Appendices

Dedication

To my family and friends who strengthen my soul, ignite my courage, and inspire me to never give up.

Introduction

In the last two decades, shareholder activism has become a hot topic in corporate America. According to the *Activist Investing Annual Review 2017,*[1] during 2016, 456 public companies were subjected to activist demands in the U.S. which represents a 46 percentage increase in the number of activist efforts in the last four years (Activist Insight, 2017). Another study published by *The Wall Street Journal* revealed that activist investors targeted 71 companies with market capitalization over five billion dollars between 2009 and 2015. Shareholder activism is a relevant phenomenon in corporate management because it affects companies' valuation and the relationship between organizations and their key shareholders.[2]

While companies need capital to support their operations, activist investors compete for investment opportunities to generate returns above the market expectations. Activists usually target big companies in financial struggle taking undervalued positions.[3] According to Tan (2016, January 13), shareholder activism is now considered the preferred investment strategy for activist mutual funds[4] which manage around $122 billion—four times the amount they controlled a decade ago. A raise on the amount of capital controlled by activists and the number of institutional investors[5] has increased the

---

[1] A document published by Activist Insight, a London based research firm tracking shareholder activism worldwide. The annual review offers an overview of activism activity as well as the top 10 activists of the year.

[2] Benoit and Monga (2015, October 5) studied 71 activist campaigns between 2009 and 2015. The study, published by *The Wall Street Journal*, revealed that 27% of the companies in the sample generated higher returns than their industry peers not affected by activism.

[3] A undervalued position is "an investment strategy that considers a particular stock in light of known circumstances, such as financial position, industry outlook and trends, and market conditions, which justifies a higher price for the security that what it is trading currently" (Richards, 1986, p. 332).

[4] Mutual Fund is "a group of investors who pool their money to act as a large single investor" (The IFR Financial Glossary, 1988, p. 156).

[5] Laskin (2010) mentioned that in 1950, institutional investors owned 6% of the total stocks traded in the capital market, however, "in 2003 … this number had increased to almost 60%" (p. 613).

chances of public companies of any size to be targeted by activist investors as well as the need for communication strategies to prevent and/or respond to activist behavior.

According to the behavioral strategic management paradigm (Grunig, 2009), in which this study is embedded, investor relations is a public relations function focused on building mutually beneficial relationships between organizations and the financial community (Broom & Sha, 2013; Hutchins, 2005). Therefore, financial public relations refers to a strategic activity and management function focused on research, planning, business strategies and tactics, and two-way communication with key stakeholders to build mutually beneficial relationships with the financial community (Laskin, 2010).

Following Grunig's (2009) stance on public relations as a "bridging" function, communication expertise provides organizations the strategies to maintain relationships with strategic constituencies [also known as publics] not only by "negotiating meaning … [but also by] "negotiating the behavior of both organizations and publics" (pp. 9-10). Consequently, investor relations professionals need not only the specialized knowledge to understand financial performance and the company valuation but also the strategic communication skills to "recognize problems before they happen" (Heath & Coombs, 2006, cited by Laskin, 2010, p. 615) and face events that challenge the relationship between an organization and its publics.

Therefore, as Laskin (2010) argued, "[t]he rise in institutional ownership changed the practice of investor relations and raised the importance of the function for corporate success and survival" (p. 613). Likewise, research in investor relations should transcend the "general description of the profession," addressing relevant issues such as shareholder activism from a communication perspective (Laskin, 2014, p. 213; Uysal, 2014).

Moreover, as Doan and McKie (2017) claimed, in investor relations literature, "there needs to be more research looking into the communication needs and behaviors of relevant stakeholders" (p. 5), such as activist investors. In other words, communication studies can contribute to investor relations scholarship and practice by providing strategies for building and maintaining relationships.

Consequently, this inquiry expands financial public relations research from a communication perspective by analyzing how stockholder activism[6] shapes investor relations to offer strategic knowledge to deal with a recurrent scenario in the capital market. Furthermore, this study follows a developing line of research that reconciles public relations and investor relations literature as demanded by communication and business scholars (Botan & Hazleton, 2006; Doan & McKie, 2017; Kelly, Laskin & Rosenstein, 2010). In particular, through a thematic analysis of online texts, this study analyzes investor relations applying public relations literature to a case of stockholder activism.

The Case: Valeant

Since August 2015, Valeant Pharmaceuticals International (Valeant), a public company in the healthcare sector (see appendix A for details on the company's background), has faced a financial and management crisis affecting the company's valuation—83% negative returns in the last year.[7] While the company has been dealing with a federal investigation on pricing practices and charges of financial fraud, Valeant shares have dropped below $10 from $263 per share (figure 1). The total loss in market

[6] Note that I have purposely chose the term stockholder activism instead of shareholder activism to differentiate this communication-centered research from other studies in shareholder activism that are business-centered.
[7] Negative returns translate into higher cost of capital since the risk of bankruptcy increases.

value between August 2015 and December 2016 was $85 billion (Hopkins & Armstrong, 2016, December 16).

Figure 1. Valeant's Peak Stock Price on August 5, 2015 (The New York Times, 2017, April 7).

Within this context, the actions of two influential investors, William Ackman and Andrew Left, provided the defining moment framing this analysis.[8] On one side, Ackman was one of Valeant's largest institutional investors; on the other side, Left led a communication campaign to unveil Valeant's accounting wrongdoing. Consequently, these competing actions challenged Valeant's relationship with the financial community

[8] William Ackman and Andrew Left are considered influential investors since their investment decisions are mirrored by other shareholders and closely followed by the media and analysts.

by increasing the cost of capital and downgrading the analysts' recommendations.[9] Meanwhile, for this particular crisis, the organization's investor relations department created a link—*valeantnow.com*—to disseminate the company's response to specific issues.

Since companies are usually targeted by one activist investor, this is a peculiar case because two activist investors confronted each other during a corporate crisis, and one of them is an institutional investor. William Ackman, an activist-mutual fund manager, who owned a high stake in the company, initially, took the side of the organization to oppose Andrew Left, an activist investor running a "prominent short-selling firm" (Stevenson, 2015, November 23), who accused Valeant of deceitful accounting practices. [10] Two years later, Ackman liquidated his position calling his bet on Valeant a "huge mistake" (Stevenson, 2017, March 29). According to the media, Ackman and Left's confrontation impacted Valeant's efforts to restore the confidence of the financial community, hampering the company's survival and growth (Renick, 2015, October 30).

Since August 2013, when the stock passed the $100-barrier, shareholders profited from the company's two-year positive trend. In August 2015, the trend switched back and the company started to lose value. Valeant started to exhibit negative returns. According to the financial media, a series of events framed Valeant's financial disaster (figure 2), starting with allegations of predatory price hikes, followed by charges of improper

[9] Cost of capital refers to the rate of return investors require to make an investment. It is calculated based on the percentage on each source of funding which are equity (money from stockholders/ownership) and debt (money from creditors/without ownership). When the cost of capital increases, investors demand higher returns.
[10] Short sale is "the sale of [borrowed] securities with the expectation of their repurchase at lower prices" (The IFR Financial Glossary, 1988, p. 211). Short selling is motivated by the belief that a security's price will decline.

accounting practices, delayed accounting and financial reports, and lack of accountability in management and investment decisions (Hopkins & Armstrong, 2016, December 16). See appendix B for details on the Valeant crisis.

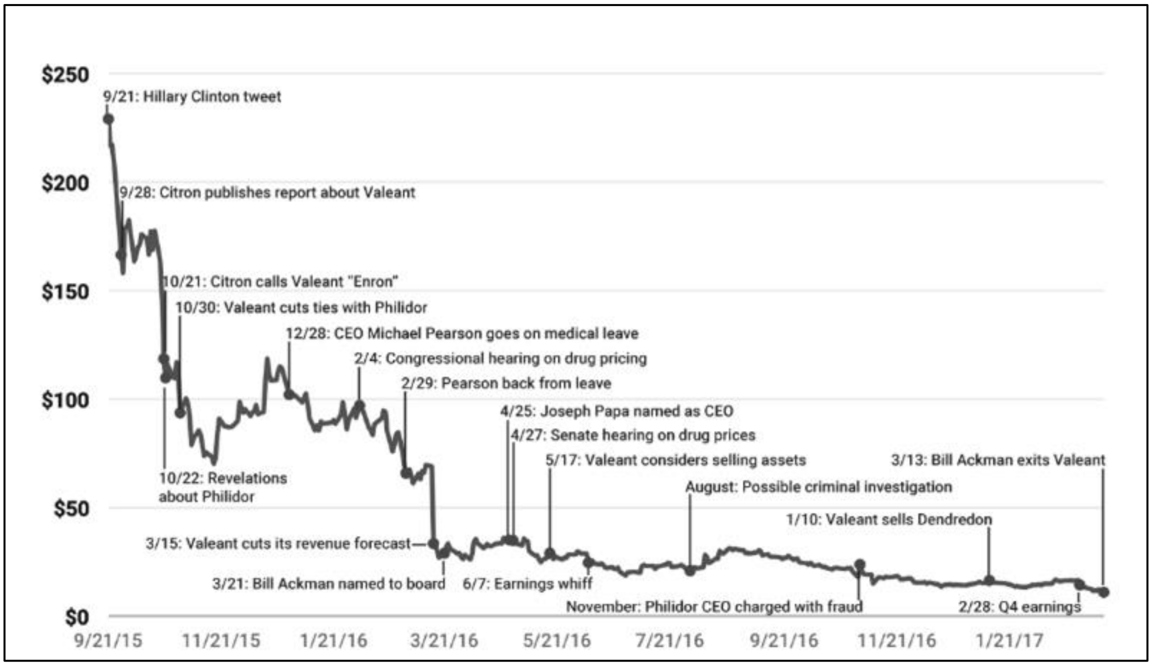


Figure 2. Valeant Crisis Timeline (including important dates, X axis, and share price, Y axis (Ramsey & Kiersz, 2017, March 14).

This is the context framing the following thematic analysis aiming to examine how stockholder activism shapes investor relations during the interaction between Valeant, two activist investors, and the media. A thematic analysis will reveal (1) what themes emerged from the *valeantnow.com* posts in the context of the Valeant crisis, (2) what themes emerged from the messages activist investors sent to the financial community, and (3) what themes emerged from the news during this interaction between Valeant and two activist investors. The findings will provide investor relations practitioners with strategies to deter and/or respond to activist investors.

The following sections contain the literature review, methods, results, and discussion that support the findings. First, there is a review of the literature on investor relations and shareholder activism, including relevant studies published in both business and communication oriented journals as well as public relations literature on activism which framed this thematic analysis. This section ends with the three research questions driving this study. Second, there is a description of the methodology applied for data collection and analysis. Third, there is a report of the evidence collected through a thematic analysis. Fourth, there is a discussion of the research findings to observe how the evidence gathered in the results section expanded financial public relations literature.

Literature Review

Investor relations research has been classified as business-centered and communication-centered with the former outpacing the latter in the number of publications[11] (Doan & McKie, 2017). Since the field has been dominated by business scholars, investor relations research has been oriented more toward "the impact of IR [investor relations] on market variables and short-term movements" than toward communication behavior and long-term relationship building (Doan & McKie, 2017, p. 4). In other words, the majority of the research in the field focuses on financial management instead of public relations.

In a similar way, shareholder activism research has been framed by business-centered literature, studying topics such as stock trading (Swanson & Young, 2017), corporate governance (Adegbite, Amaeshi & Amao, 2014), and institutional activism tactics to challenge organizations (Lee & Schloetzer, 2014). None of these studies have

[11] Doan and McKie (2017) reported that, between 1994 and 2016, from 271 articles on investor relations published in academic journals, 199 were business oriented.

combined public relations literature and shareholder activism to examine how stockholder activism shapes the practice of investor relations and communication behavior. This thematic analysis aims to fill this gap by updating investor relations literature to offer practitioners strategic knowledge to deal with activist investors.

In order to attain this goal, this literature review starts with an overview of the evolution of the discipline, followed by research on investor relations and shareholder activism, including activism literature in the context of public relations upon which this thematic analysis stands.

From Business to Communication Studies in Investor Relations

Business literature defines investor relations as a multidimensional strategy focused on corporate communications, business management, financial analysis, and public relations (Ryan & Jacobs, 2005). Interestingly, the National Investor Relations Institute (NIRI) (2016), which is the professional association overseeing the practice of investor relations in corporate America, uses public relations language such as “strategic management” and “effective two-way communication” to describe the profession:

> Investor relations is a strategic management responsibility that integrates finance, communication, marketing and securities law compliance to enable the most effective two-way communication between a company, the financial community, and other constituencies, which ultimately contributes to a company’s securities achieving fair valuation. (About NIRI, para. 2)

However, this approach to investor relations does not include building relationships as a key factor in the field. In contrast, communication scholars have argued the practice of financial public relations should be addressed through public relations theory (Botan & Hazleton, 2006) since building relationships is essential in business management. A good example in this line of research is the work of C. Chandler who is a communication scholar interested in the relevance of relationship management theory to investor relations. Chandler (2014) argued CEOs of public companies require communication expertise to meet investors' expectations on information disclosure while maintaining beneficial relationships with the financial community.[12]

Hutchins (2005) acknowledged the value of both communication and finance in investor relations by stating the field is an "offspring of public relations and finance," evolving from business marketing to strategic management (p. 448). The business scholars Hoffmann, Tutic, and Wies (2011) conducted a research to support this claim, finding that "the presence of marketing and communication experts in IR [investor relations] teams contributes to higher IR quality and lower shareholder activism" (p. 311). Therefore, public relations expertise has been proved to be necessary to deal with activist investors.

The foundation of the practice of investor relations has been linked to communication in terms of marketing to target investors (Mahoney, 1991) and persuasion to gain capital. Hutchins (2005) and Laskin (2010) pointed out the evolution of the field in the context of financial events and the role of the financial public relations practitioners. Even though Hutchins and Laskin slightly differed in the timeline, both agreed that the practice of investor relations started as a technician role in which communication and journalism skills satisfied the organizations' requirements. During

[12] The financial community includes: investors, security analysts, creditors, credit agencies—organizations that assess companies' ability to pay back debt and meet interest payments on time—financial news media, and regulators (Guth & Marsh, 2005; Laskin 2009, 2010; Ryan & Jacobs, 2005).

the 1980's, the competition for capital increased, demanding more finance expertise from investor relations officers to deal with corporate raiders and activist investors who entered the scene. Hutchins (2005) argued this is the time in which the practice of investor relations deviated from the public relations domain. This is the tipping point in which business centered research gained relevance and communication studies were left behind.

In the early 2000's corporate scandals involving financial disclosure delays, executive mismanagement, and regulatory compliance violations as well as an increase in shareholder activism challenged the way organizations and shareholders interacted while a new legislation was enforced to guarantee financial markets' stability. [13] Consequently, investor relations practitioners needed not only finance but also communication expertise to restore investors' confidence in a turbulent corporate America (Hutchins, 2005; Laskin, 2010). In its current stage (synergy era, Laskin, 2010), investor relations "contribute[s] to a company's securities achieving fair valuation" (About NIRI, para. 2) by practicing two-way symmetrical communication and applying specialized knowledge in finance and stock market legislation (Laskin, 2010; NIRI, 2016).

Strategic Investor Relations

In the book *Using Investor Relations to Maximize Equity Valuation*, Ryan and Jacobs (2005) stressed the strategic role of the investor relations department in terms of the company's valuation. They framed the company's valuation in two main areas: on one hand, there is the financial performance based on "standard valuation measures that

[13] See the Sarbanes-Oxley Act, 2002 for details. This legislation was created to protect investors from corporate mismanagement related to accounting frauds by increasing financial disclosure requirements. For instance, senior executives must sign financial reports since they take individual responsibility for the accuracy of these reports.

are assigned to all companies," on the other hand, investors' perception based on "how that financial performance is communicated (how, when, what, to whom, and by whom) relative to expectations" (p. 95). Consequently, investor relations practitioners must have the expertise to manage the company's valuation beyond its financial performance.

Ryan and Jacobs (2005) addressed three main phases of strategic investor relations: first, defining the company's position in the stock market to "create a story that serves as the company's face to Wall Street given the current valuation", second, delivering the message through active communication in terms of "transparency, and consistency, in both good times and bad times, and, third, using dialogue to "nurturing relationships with capital markets" (pp. 89-90). The authors explained this strategy—a combination of definition, delivery, and dialogue—provides investor relations officers with the tactics to conduct everyday tasks.

Following is a review of current studies on investor relations that support the value of communication expertise in the profession. The majority of these research are based on surveys of investor relations professionals and a few of them are based on media content analysis. However, none of them respond to a thematic analysis or address shareholder activism. Consequently, the findings on investor relations as a strategic communication function have focused on the value of nonfinancial disclosure, two-way communication, and media coverage.

Nonfinancial Disclosure. Doan and McKie (2017) conducted the most recent content analysis of investor relations articles in business and communication journals, including a survey analysis of investor relations practices conducted by the Bank of New York Mellon. Doan and McKie (2017) argued there is "a shift in the goals of IR [investor relations] practice away from effective disclosure and information flows and toward maintaining relationships with existing investors” (p. 4). Nevertheless, the practice of investor relations is still considered as “reactive to change rather than as a proactive and strategic function” (Doan & McKie, 2017, p. 5). Even though this assumption evidences that strategic investor relations is still a developing field, it sheds light on the value of strategic communication in the practice of investor relations.

Hoffman and Fieseler (2012) supported the value of nonfinancial information to build the company’s image. They argued investor relations departments must create messages focusing on the company’s strengths to attract investment. The authors identified eight non-financial factors influencing companies’ valuation on the capital markets that investor relations practitioners must address when creating and promoting the company’s image: stakeholder relations (in terms of customers and employees), corporate governance (in terms of consistency and accountability), corporate social responsibility (in terms of lobbing and regulation compliance), company’s reputation (in terms of media coverage and public support), brand (in terms of innovation), management quality (in terms of managers’ reputation in the industry), strategic consistency (in terms of its development and execution), and company’s communication (including competence, transparency, and setting the agenda in the media).

Likewise, Laskin (2016) conducted a survey in which 560 investor relations professionals registered in the NIRI participated. The study focused on investor relations officers' opinion on the frequency and importance of communicating nonfinancial information to meet the investment community’s expectations on information disclosure. The findings revealed that investors value not only financial information but also nonfinancial reports or intangible assets. In this regards, "although information about management is rated as one of the most important by investors, investor relations officers fail to share this information and fail to see its importance" (p. 375).

This quantitative research included ten categories to analyze the type of information investor relations officers include when communicating with the financial community. One category refers to financial performance and the other nine focus on intangible assets “defined as claims to future benefits that do not have a physical or financial form” (Hand & Lev, 2003, as cited in Laskin, 2016).

Laskin’s (2016) analysis included all the nonfinancial factors Hoffman and Fieseler (2012) evaluated. However, there are some differences. Laskin (2016) added two other categories: organizational capital related to the business model and product and services related to the organizations’ output. Also, Hoffmann and Fieseler (2012) grouped customers and employees under one category while Laskin (2016) separated them as competitive market position and employees. Lastly, while Laskin (2016) included public relations and media relations under the communication category, Hoffman and Fieseler (2012) listed them separately as reputation and company’s communication.

Ragas, Laskin, and Brusch (2014) followed Hoffman and Fieseler’s (2012) argument on the role of investor relations in building the company’s reputation. Ragas et al. (2014) conducted a quantitative research to determine how to measure investor relations effectiveness. They argued investor relations should not be measured through the company’s share price since investor relations officers cannot control financial factors, “such a firm’s financial performance and economic cycle” (p. 186). Ragas et al.

(2014) pointed out investor relations effectiveness can be measured through nonfinancial factors such as the company's ability to build relationships with the financial community and the public opinion.

Furthermore, Chandler (2014) focused on the relationship management function of investor relations by conducting qualitative interviews to the CEOs of public companies in the U.S. The interview guide followed "Hon and Grunig's (1999) scales for examining the quality of relationships (i.e., trust, satisfaction, control mutuality, and commitment) (p. 164). The findings revealed the challenges CEOs face when building relationships with the financial community. In particular, the interviews pointed out the value of intangibles such as "trustworthiness, transparency, honesty, and willingness to be responsive and listen to investors" as determinants in the way organizations deliver their messages (p. 166).

Two-way Communication. In public relations, organizational effectiveness is associated with two-way symmetrical communication.[14] Kelly et al. (2010) conducted a national survey including investor relations practitioners registered under the NIRI and the Public Relations Society of America's (PRSA) Financial Communications Sections to test the two-way symmetrical model in the practice of investor relations in corporate America. They concluded that publicly traded companies rely on "relational investing" which refers to building "long-term relationships with investor public in an effort to secure patient capital" (Lowenstein, 1996, as cited in Kelly et al. 2010, p. 204).

---

[14] Keller et al. (2010) explained that Grunig's (1984) two-way symmetrical model aims to "generate mutual understanding [willingness to change attitudes and behaviors] between an organization and its strategic publics", through dialogue and negotiation (p. 191).

Consequently, the study supported the argument that investor relations officers practice two-way symmetrical communication to maintain mutually beneficial relationships with stockholders who provide the capital corporations need “to succeed and survive” (Kelly et al., 2010, p. 205). Additionally, the authors claimed that when conflicts arise, corporate managers must reconcile organizations and shareholders’ interests to maintain the organization’s positive image and secure organizational goals. Organizations use different delivery methods to communicate with their strategic publics such as conference calls, annual shareholder meetings, online posts, and news release.

Media Coverage. In this context, Penning (2011) conducted a survey of individual investors—the study did not include institutional investors—to examined how they consumed information to make investment decisions. In particular, the author applied public relations theory to analyze how investors seek and process information. The authors concluded individual investors value more the information generated by the organizations’ investor relations departments than the information generated by the media.

The aforementioned findings support this research stance on the value of communication expertise to practice investor relations. However, none of these findings have been applied to cases of shareholder activism. Additional literature review was required to observe how shareholder activism shapes investor relations.

Shareholder Activism

Shareholder activism, is an event that threats the company’s business goals and its ability to maintain relationships with the financial community, challenging investor relations practice. From a behavioral strategic management perspective, investor relations officers need management skills not only to counsel executives during a corporate crisis (Hong & Ki, 2007) but also to gain investors' support. The more conflicting the environment is, the higher the need of a multidisciplinary expertise (e.g., communication, management, conflict resolution, finance, accounting, and law).

Communication studies define activism in the context of a confrontation between organizations and publics. For example, Grunig (1992) addressed activism as a limitation to organizational effectiveness. Smith (2005) defined activism as "the process by which groups of people exert pressure on organizations or other institutions to change policies, practices, or conditions that the activists find problematic" (p. 5). In public relations, there are "three interrelated concepts: issues, legitimacy, and power … that not only contribute to our understanding of activism but also contribute to public relations theory development" (Smith & Ferguson, 2010, p. 400).

Smith and Ferguson (2010) elaborated on these three key concepts to understand activism in terms of issues, legitimacy, and power, based on previous research conducted by public relations scholars. This approach reflected stakeholder theory, according to which stakeholders' salience can be evaluated in three dimensions: power (ability to affect other's attitudes and behaviors), legitimacy (ability to accept other's attitudes and behaviors), and urgency (ability to negotiate response timeliness) (Mitchell, Age, & Wood, 1997, p. 854). Smith and Ferguson (2010) noticed activism research is still a developing field, therefore most of the concepts addressing activism are borrowed from other disciplines such as issues and business management.

Issues. According to Darmon, Fitzpatrick, & Bronstein (2008), "an issue is a point of conflict between an organization and one or more of its publics that arises as a consequence of action taken, or proposed to be taken, by one or more of these parties" (p. 374). Jaques (2004) argued issues must be defined not only in terms of a problem (i.e., situation that harms or might harm the organization) but also in terms of its impact on the organization (i.e., negative outcome that affects or might affect the organization). Accordingly, Guth and Marsh (2005) listed three criteria to identify issues: "It must be evolving, it must influence the actions of multiple stakeholders, and it must have the potential of evolving into some form of policy" (p. 109). In Smith's (2005) terms, issues can position a topic, solicit support for action, or engage in political discussion.

According to Smith and Ferguson (2010), issues arise when one actor (or actors) identif(ies) an issue, generally related to change of the current status, and proposes a solution or intendent resolution, which is the activist's proposition. The authors listed three phases in issues development: (1) the strain phase, which focuses on the activists' proposition on the issue, (2) the current phase, which refers to messages' dissemination through the media and other entities supporting the activists' propositions, and (3) the dormant phase, which occurs when the issue is solved or loses relevance. Smith (2005) emphasized issues must be relevant for both parties, so activists recognize the problem and decide to do something to solve it, and organizations see a threat on the activists' actions. Once the problem or issue is identified, the analysis moves to legitimacy.

Legitimacy. Smith and Ferguson (2010) referred activism implies "a dual legitimacy challenge" in which activists and organizations question each other's images in terms of what is perceived in the public opinion versus what is expected (p.401). The authors pointed out that legitimacy gap "provides the motivation for activism" (p. 401).

Activists are goal oriented, consequently they gain legitimacy (a) by making their objections relevant to the organizations and/or (b) by reaching their objectives.

Smith and Ferguson (2010) explained that through the five stages of activism—strain or stress, mobilization, confrontation, negotiation, and resolution—“[a]ctivists and their targets perform a legitimacy dance, each questioning the other’s issues, motives, and right to exist” (p. 401). Legitimacy is exercised and challenged through power, which is the following dimension in activism analysis.

Power. Smith and Ferguson (2010) explained power is exercised in two ways: influence and disruption. On one side, corporations aim to “influence what issues are discussed” in the public opinion through media coverage and lobbying (p. 402); on the other side, activists aim to “disrupt a resource on which a corporation depends … [for instance, affecting] the perception of an organization’s brand and its competitive position… [or] mobiliz[ing] resources, specially people and money” (p. 402).

The authors point out that on one side, there is the organizations’ power to face activism since they “are presumed to have greater financial resources” to control legislation, the media, and the public opinion (p. 402); on the other side, there is the activists’ “chains of influence” to connect with larger groups and increase their impact on the organization (Zietsma & Winn, 2008, as cited in Smith & Ferguson, 2010, p. 402). Coombs and Holladay (2007), cited by Smith and Ferguson (2011), also argued that “activist have power equal to corporations and that they have greater access to public attention than do corporations” (p. 403).

Examples of relevant research in shareholder activism include the following topics: activist tactics, media coverage, and organizational legitimacy.

Activist Tactics. From a business management perspective, Den Hond and De Bakker (2007) and De Baker and Den Hond (2008) conducted a bibliographic review to expand shareholder activism literature. They argued that shareholder activism can threaten organizations in terms of material capital, affecting the business' resources and cost of capital, or symbolic capital, affecting the business' reputation.

In a similar way, Lee and Schloetzer (2014) conducted a case study to analyze the tactics of two institutional investors—Carl Icahn and William Ackman—who targeted 13 companies between 2002 and 2014. The study reported fund managers usually become activists aiming to increase the value of the target companies. The authors explained:

> Hedge fund activism is more likely when an entrenched board fails to: establish a clear corporate strategy; replace a CEO in a timely manner [which] imped[s] the execution of the corporate strategy; seek alternative uses for the company's valuable noncore assets or fails to maximize shareholder value when taking the company private; distribute "sufficient" levels of cash to shareholders through dividend payouts and share repurchase programs. (Activist tactics, para 3)

The authors listed the following tactics implemented by the activists who were subject of research: (1) proxy contest to gain board representation, (2) public statements to question or support management performance or the company valuation, (3) letters to shareholders to gain support from the investment community, (4) media interviews and use of social media to gain public support, (5) engage with corporate acquirer to promote mergers and acquisitions.

Media Coverage. Ragas (2013) and Ragas et al. (2011) applied mass communication theory to business studies by analyzing how organizations, activists, and the media shape public opinion during activist campaigns. Through a quantitative content analysis, the authors studied specific activist campaigns to contrast the messages disseminated by organizations, activists, and the media. They concluded these three actors "enjoyed some [but not absolute] success in shaping media coverage during the proxy fight" (Ragas et al., 2011, p. 257).

These studies pointed out that, first, none of these actors have control over the issues discussed in the public sphere, and, second, there is a "mutual two-way influence—rather than a unidirectional influence of informational subsidies [meaning the content generated by organizations and activists] of the news" (Ragas, 2013, p. 219). In other words, organizations and activists can influence what is covered by the media, as well as the media influences what topics are discussed by organizations and activists.

Organizational Legitimacy. Uysal's (2014) analysis on how shareholder activism challenges organizations' legitimacy aimed to "offer an important new venue for investor relations theory and research within the strategic communication domain" (p. 216). Through a case study, the author explored organizations' and key stakeholders' engagement. Even though the study is not framed by investor relations literature, since it is focused on corporate management and social responsibility, it is relevant for this inquiry because it suggests that shareholder activism influences investor relations when organizations seek legitimacy. Furthermore, while competing for public support, organizations implement changes in public relations triggered by the activists' demands (Uysal, 2014).

Likewise, Perrault's (2015) argued "[s]hareholders generally become activists when they experience distrust toward a firm, questioning the legitimacy of its practice"

(p. 150). Perrault (2015) conducted a content analysis to observe the role of gender in business effectiveness and organizational legitimacy. Although these findings are related to gender studies and business management, this research contributes to shareholder activism literature by analyzing the "role of shareholder activists in initiating and thrusting institutional change" (Perrault, 2015, p. 162), which is relevant when organizations compete for legitimacy.

Even though activism is a phenomenon studied in business and communication journals, no research has elaborated on how stockholder activism has changed the practice of investor relations. As stated, research on investor relations has not included shareholder activism as a theme while shareholder activism has been limited to a description of the cases and their implications in corporate management. Therefore, the current literature has failed to update investor relations scholarship by including strategies to respond to shareholder activism. In order to observe how shareholder activism shapes the practice of investor relations, this examination applies Smith and Ferguson's (2010) dimensions to analyze activism as a theme in investor relations.

Research Questions

Based on previous studies on investor relations and shareholder activism, this research aimed to observe what themes emerged to inform financial public relations literature and how investor relations literature applied to handle shareholder activism. The focus of the study is the interaction between Valeant, two activist investors, and the media during a corporate crisis that was documented online.[15] The following research

[15] The online texts were documented by five main sources and are available on the websites of Valeant, Pershing Square, Citron Research, *The Wall Street Journal*, and *The New York Times*.

questions guided this thematic analysis on how stockholder activism shapes the practice of investor relations:

RQ1. What are the themes that emerged from the *valeantnow.com* posts in the context of the Valeant crisis?

RQ2. What are the themes that emerged from the messages activist investors sent to the financial community in the context of the Valeant crisis?

RQ3. What are the themes that emerged from the news generated during this interaction between Valeant and two activist investors?

Method

Overview

This study was guided by a qualitative methodology. I conducted a thematic analysis following Braun and Clarke's (2006) six phases of thematic analysis to examine online texts in a case study. The data set included 59 units of analysis. The analysis stage combined a thorough reading of the sample and a reflective process of data interpretation. The validity of this study relied on data triangulation (Daymon & Holloway, 2011). Five sources of information—online texts available on the websites of Valeant, Pershing Square, Citron Research, *The Wall Street Journal*, and *The New York Times*—provided the material for a thematic analysis. Following is a discussion of the methodology, data collection procedures, analysis procedures, and validity of this study.

Methodology

This study examined the concept of stockholder activism as an area for development in financial public relations scholarship. By applying a thematic analysis to online texts related to the interaction between Valeant, two activist investors, and the media, this study determined how stockholder activism shapes investor relations practice. Since this study focused on a phenomenon—stockholder activism—to inform financial public relations literature, a detailed analysis of data was required. Therefore, guidelines for a case study and content analysis were applied to data collection (Daymon & Holloway, 2011; Wimmer & Dominick, 2014) while a thematic analysis (Braun & Clarke, 2006) framed data analysis.

Case studies, content analyses, interviews, and surveys are the most common methods used by scholars to gather data in investor relations and shareholder activism research. According to the literature review presented in the previous section, this is the first thematic analysis of investor relations and shareholder activism. Therefore, a case study guided this initial approach to the phenomenon under investigation. Uysal (2014) used a case study "for illuminating the process of shareholder activism-corporate engagement" (p. 222). Since I also studied the interaction between shareholder activists and one organization through online texts, a case study was an appropriate fit to gather data used to interpret theoretical constructs in written correspondence.

Moreover, a case study allowed an in-depth analysis of communicative practices within the context in which they occurred (Wimmer & Dominick, 2014). According to Daymon and Holloway (2011), a case study approaches the object of research with a holistic view to support the findings not only considering the context but also "exploring relationships and connections … [among] multiple sources of information and multiple viewpoints" (p. 118). However, case studies also exhibit limitations that must be acknowledged while designing a research study such as managing a large amount of data to conduct reports in a timely fashion and lacking scientific rigor to allow generalization (Wimmer & Dominick, 2014).

Consequently, a content analysis of online texts provides the tools for a systematic data collection in a case study. Online texts were considered a valid source of information in investor relations research since previous studies in the field have argued they portray the company's communication strategy (Dominic, Stubenrath, & Weber, 1999; Esterhuyse & Wingard, 2016; Hedlin, 1999; Yanjie & Wan, 2013). Following is a description of the procedure that I applied to conduct investor relations research based on Wimmer and Dominick's (2014) guidelines for data collection in a content analysis.

Data Collection

Research Topic. The first step in any research is to answer the questions on what, how, and why the research is conducted. This study covered the topic of handling stockholder activism through financial public relations to expand investor relations literature. In particular, this research analyzed the themes that emerged from the interaction between Valeant, two activist investors, and the media, documented online during a corporate crisis (see research questions in the previous section).

Sampling. The next step is to determine the focus of study, meaning the universe, sample, and unit of analysis. In order to study the topic of stockholder activism in financial public relations, this research was framed by the interaction between Valeant, two activist investors, and the media, documented online in the context of a corporate crisis. In order to conduct qualitative research, a sample selection was required since this interaction was documented online through many sources (e.g., news, corporate websites, blogs, social media, etc.).

As Atakan-Duman and Ozdora-Alsak (2014) have argued, in qualitative research the researcher must make decisions to guarantee "a manageable amount of data" in the analysis stage (p. 863). This sample included texts that were considered fundamental in the communicative interaction between Valeant, two activist investors, and the media according to the following criteria: first, they were available to the public online through the Valeant corporate website, Pershing Square website, Citron Research website, and online media; second, they occurred during the time frame of analysis and were directed toward investors or generated by activist investors; and, third, they included keywords related to the focus of study. Below, there are details on each selection criterion.

Sources: From the Valeant corporate website I only included texts published in the link *valeantnow.com* since these statements were generated by the investor relations department as a specific strategy to respond to the crisis framing this research. Furthermore, the focus of this research was to analyze the interaction between Valeant, two activists, and the media, and these texts were generated to respond to these specific publics. Indeed, Valeant submitted some of these posts to the Security Exchange Commission (SEC) on a 8-K form as a regular procedure public companies follow to notify investors about specific events affecting the business operations (for details see references Valeant, 2015, October 06). Any other communication piece issued by Valeant during the crisis (e.g., press releases and other SEC filings) should be included in future research.

From the Pershing Square website I included only the 2016 and 2017 annual reports (update presentations) issued by Ackman—as the Pershing Square's fund manager—since these are two comprehensive documents that explain his investment strategy during 2015 and 2016 which are the years framing this study. As suggested by Ryan and Jacobs (2005), any other communication pieces generated by the company (e.g., letters to shareholders, conference calls, and SEC filings) should be reflected in these comprehensive documents.

From the Citron Research website I included all documents issued by Left addressing the Valeant crisis since these four reports represented the written correspondence delivered by Left referring to Ackman, Valeant, and the media.

From the online media I selected *The Wall Street Journal* and *The New York Times* as the sample, based on Kiousis, Popescu, and Mitrook's (2007) previous research on public relations and media coverage. "These newspapers were selected because of their role as elite newspapers in order to obtain a range of viewpoints on the corporations" (Kiousis et al., 2007, p. 154). Also, these two newspapers were linked to the Valeant case by reporting relevant information evidenced in the results section. I included only hard-news stories following Ragas et al.'s (2011) and Kiousis et al.'s (2007) research guidelines for media coverage in public relations studies.

Time frame: This study covered a sample period in which Valeant, two activist investors—Andrew Left and William Ackman—and the media interacted to discuss the company's business strategy and financial performance between February 9, 2015 and March 19, 2017. Following the guidelines in a previous case study of shareholder activism (Ragas et al., 2011), the collection period starts when activists initiate the contest and ends when activists withdraw their positions, reach an agreement, or win the contest. In this case, the collection period started when Ackman and Left made a public statement on Valeant and ended when Ackman and Left withdrew their activist positions.

Following Uysal's (2014) guidelines for shareholder activism-corporate engagement research, the time frame must consider the engagement process between the subjects of analysis. On February 9, 2015, Ackman bought Valeant shares for the first time and expressed his support for the company. On September 28, 2015, Left issued the first Citron Research report on Valeant. On November 2, 2015, Left issued the last Citron Research report on Valeant. Two years later, on March 17, 2017, Ackman liquidated his position on Valeant. Accordingly, the sample period for this study started on February 9, 2015, when Ackman issued his first statement on Valeant, and ended on March 19, 2017, which was two days after Ackman issued his last statement on Valeant. Two days were added to include media coverage on Ackman's last statement. Also, Left's reports were issued within this time frame.

Keywords: As stated, not only the time frame but also keywords were required to determine the relevant material for analysis. Once the time frame was defined, the sample was reviewed applying the keywords "Valeant", "Ackman", and "Citron Research[16]" to include texts referring to Valeant, William Ackman, and Andrew Left respectively. These key terms were entered combined as a useful selection criteria of news articles.

According to the source, time frame, and keywords criteria, the sample included statements issued through *valeantnow.com,* annual update presentations issued by Pershing Square, research reports issued by Citron Research, and articles generated by *The Wall Street Journal* and *The New York Times*, using the keywords "Valeant" and "Ackman" and "Citron Research," from February 9, 2015 to March 19, 2017. Bear in mind this sample only counted news articles that included the aforementioned keywords.

---

[16] The keyword "Citron Research" was used instead of "Left" since this last name generated irrelevant results.

Any article that missed one or more of the key terms framing this study should be included in future analysis. Next, each statement, annual update presentation, research report, and news article were considered a unit of analysis.

Unit of Analysis: According to Wimmer and Dominick (2014), the “operational definitions of the unit of analysis should be clear-cut and thorough; the criteria for inclusion should be apparent and easily observed” (p. 168). Consequently, the units of analysis were categorized and coded as follows (see appendix C for a list on the units of analysis’ categories and codes):

Valeantnow.com-statements: the text pieces issued by the Valeant’s investor relations department to respond to the corporate crisis and included in the link *valeantnow.com*. Valeant created “a dedicated webpage for the company’s latest news and statements” (Valeant, 2017a). This link, located in the company’s investor relations website, provided Valeant’s stance on issues discussed by the media and the public opinion regarding the company’s corporate crisis. This material represented the investor relations communication strategy.

During the analysis time frame, the company’s investor relations department issued 40 statements through the link *valeantnow.com*—from September 27, 2015 through October 21, 2016—to communicate with investors on behalf of the company. This sample included one investor conference call presentation. Even though, a preliminary content search reported that only two entries referred directly to one of the key terms considered in this analysis, all 40 statements (135 pages of text) were analyzed since they provided Valeant’s overview on the issues that were relevant for this research and for the company's investor relations strategy. These units of analysis were coded using the initials VN combined with the numbers one through 40.

Pershing Square Annual Reports (update presentations): the text pieces issued by Ackman to voice his position on Valeant during the 2016 and 2017 annual meetings. As a hedge fund manager, Ackman made the decision on where to invest the capital pool his firm represents. Annual reports are comprehensive documents describing the company's investment strategies and all relevant information for investors during a fiscal year (Ryan & Jacobs, 2005). This source generated two units of analysis. For the purpose of this study, a total of 21 pages of these reports, in which the key terms appeared, were analyzed. These units of analysis were coded using the initials PS combined with the numbers one and two.

Citron Research Reports: the text pieces issued by Left to voice his opinion on stock performance, investment advice, and mismanagement claims. Considering the sampling criteria, Left issued four research reports (37 pages of text) on Valeant that were coded using the initials CRR combined with the numbers one through four.

News articles: the text pieces issued by *The Wall Street Journal* and *The New York Times* to portray relevant information related to the Valeant corporate crisis engaging William Ackman and Andrew Left. Considering the sampling criteria, *The Wall Street Journal* published eight articles (14 pages of text) that were coded using the initials NWSJ combined with the numbers one through eight, and *The New York Times* published five articles (15 pages of text) that were coded using the initials NNYT combined with the numbers one through five. In total, 13 news articles were collected.

In summary, 59 units of analysis (222 pages of text) represented the research data on the interaction between Valeant, two activist investors, and the media. Each unit of analysis was converted into Word documents, coded (see appendix C), printed, and kept in three different folders for analysis labeled as: Valeant folder, Activists folder, and Media folder. Following is a description of analysis procedures.

Thematic Analysis

Even though a few scholars have used thematic analysis as a methodology in public relations, and none of them have studied investor relations and shareholder activism, Ciszek (2016) provided an example of a thematic analysis of a case of activism, applying Braun and Clarke's (2006) guidelines. Tuckett (2005) explained that a thematic analysis allows the researcher to compare pieces of data and theory to identify patterns and reach relevant conclusions related to the purpose of study. In the end, these findings provide material to inform theory.

Therefore, applying Braun and Clarke's (2006) six phases of thematic analysis, this research analyzed the interaction between Valeant, two activist investors, and the media during a corporate crisis to observe what themes emerged to inform financial public relations literature and how this literature applies to handle shareholder activism.

Braun and Clarke (2006) define thematic analysis as a detail oriented "method for identifying, analyzing and reporting patterns (themes) within data" (p. 79). The authors defined the data set as a group of the units of analysis described above and data extract as any "individual coded chunk of data, which has been identified within, and extracted from a data item" (Braun & Clarke, 2006, p. 79). Moreover, the researcher identifies themes within the data extract providing evidence for discussion.

Following are the six phases of thematic analysis that I applied to this research (see appendix D for visuals of phases one through three in this thematic analysis). In addition, I added comments from Tuckett (2005), who studied the practical implication of thematic analysis.

Phase 1-Marginal Remarks: working with the printed version of the three folders generated by the data collection stage, I engaged in an inductive analysis of the data, “reading and re-reading … [each unit of analysis], noting down initial ideas” (Braun & Clarke, 2006, p. 87). I started reading the Valeant folder, then the Activists folder, and finally the Media folder. I wrote down notes in the margins of each hard copy of the data set. In Tuckett’s (2005) words, these “marginal remarks … [were the] first attempt at coding the data” (p. 80).

Phase 2- Codes: I revisited the marginal remarks and continued reading the material to generate codes in the digital version of the units of analysis by finding “interesting features of the data in a systematic fashion across the entire data set” (Braun & Clarke, 2006, p. 87). I used a digital version instead of the printed copy not only to effectively complete the coding stage but also to keep a digital record of the analysis process for future references. This phase generated words and phrases (in vivo quotes) that described the interaction between Valeant, two activist investors, and the media, in a “thorough, inclusive, and comprehensive” manner (Braun & Clarke, 2006, p. 96).

As suggested by Braun and Clarke (2006), coding was conducted by highlighting relevant “segments of data” (p. 89). I used the text-highlight color feature to mark data extracts in the digital copies. Then, I typed codes, listed according to their relevance, in a text box located in the top-right corner of each digital copy of the units of analysis. I included notes on explicit (textual) and latent (interpretative) meaning. Each code was identified with a specific color. As Braun and Clarke (2006) advised, the coding process continued until reaching the saturation point, meaning “when your refinements are not adding anything substantial” for analysis (p. 92).

Phase 3-Themes: I searched for initial themes by organizing the codes in a separate document, according to their similarities, into “potential themes” that described the research focus: the *valeantnow*.com posts, the messages activist investors sent to the financial community, and the news generated during the interaction between Valeant and two activist investors. This phase was data-driven since the themes depended on the data and not on theoretical assumptions. I added another text box with the potential themes in the bottom right corner of each unit of analysis.

Phase 4-Review: I interpreted the data to generate what Braun and Clarke (2006) named as the thematic map of the analysis, which was a graphical representation of the themes showing the connection among different codes. This interpretation was based on the aforementioned marginal remarks, codes, and initial themes.

According to Braun and Clarke (2006), the purpose of this phase was to identify meaningful information. I arranged the potential themes by comparison and contrast looking for not only what different themes emerged but also how they fit together to generate a preliminary thematic map. Then, I looked for the overarching story this preliminary thematic map showed. I looked for the connection between the themes in the context of the Valeant case to discover how these themes were telling the story. This analysis generated the final thematic map to respond to the three research questions (see appendix E).

As the instrument for data analysis, I analyzed the material and gathered evidence from the data to define themes and report results. Braun and Clarke argued the researcher plays a key role in this stage since “themes do not just emerge” from the data (p. 96). The researcher must interpret what is within the data since the themes “reside in our heads from our thinking about our data and creating links as we understand them” (Ely, Vinz, Downing, & Anzul, 1997 as cited in Braun & Clarke, 2006, p. 80).

Phase 5-Definition: I generated “clear definitions and names for each theme” checking if each theme “describe[d] the scope and content … in a couple of sentences” (Braun & Clarke, 2006, p. 92). I checked for consistency and distinction among themes, reviewing the marginal remarks, codes, and initial themes as many times as needed. I defined each theme and provided data extracts and “in vivo” quotes to elaborate on each one in the results section.

Phase 6-Reporting: In order to report the findings in the discussion section, I integrated the literature review with “vivid, compelling extract examples” from the data into a narrative that described the phenomenon under investigation (Braun & Clarke, 2006, p. 87). This phase provided the argument to respond to the three research questions that guided this study by answering the following inquiries: “What do … [the] theme[s] mean? What are the assumptions underpinning … [them]? What are the implications of … [these] theme[s]? … What is the overall story the different themes reveal about the topic?” (Braun & Clarke, 2006, p. 94). In the end, these themes revealed how did stockholder activism shape investor relations practice?

Validity

In qualitative research, validity refers to the extent to which the research findings reflect the phenomenon under investigation in terms of internal validity and relevance (Daymon & Holloway, 2011). The authors refer to internal validity as “the extent to which the findings and the research account accurately reflect the social world of those participants in the study and also the phenomenon” in which the research is conducted (p. 79). As stated, a thematic analysis offers the methodology to attain this goal.

First, in this thematic analysis, internal validity was supported by data triangulation since the units of analysis were generated at different points in time and from different sources. In short, five different sources of data were contrasted to reach conclusions. Second, patterns and irregularities were identified since a systematic analysis procedure was applied. Third, two different approaches supported the findings since the literature review framing data analysis derived from communication and business research. In addition, a detailed description of the analysis procedures was provided including visuals in the appendices section.

Results

The Valeant case is circumscribed to a chain of events in which the actions of Valeant, Ackman, Left, and the media were interconnected. In August 2015, Valeant had reached its peak of $263 per share and had maintained its trading over $200 per share until the news hit. According to the Pershing Square 2016 annual update presentation (see appendix F), the Valeant crisis started in September 20, 2015 when *The New York Times* published an article about the 5,000% drug price increase implemented by Turing

Pharmaceuticals (Pershing Square, 2016). This news sparked a wave of criticism against the pricing strategies in the pharmaceutical sector.

By the time Left published the first Citron Research report (September 28, 2015), Valeant had dropped 24% in market value and the downward trend did not stop. In this context, the *valeantnow.com*-statements became a communication channel between Valeant and the financial community. Specifically, in the Valeant's investor relations website the following message was included to introduce the posts: "In response to recent events, Valeant has developed an online archive of rebuttals to many of the allegations that have been made against the company" (Valeant, 2017b).

Meanwhile, the presidential candidate Hillary Clinton tweeted about the pharma price gouging, Left issued three other reports, Ackman addressed the investment community to endorse Valeant, and Valeant received two Federal subpoenas regarding its pricing strategies. This is the time in which Left, Valeant, and Ackman's communication strategies converged in the news.

Following the research methodology, a thematic analysis identified themes across the data set and provided evidence to analyze a case of shareholder activism. In this section, I describe the themes that emerged from the *valeantnow.com*-statements, Pershing Square annual update presentations, Citron Research reports, and the news articles. In the next section, I discuss how investor relations literature applied to handle shareholder activism and how this case of stockholder activism shaped Valeant's investor relations strategy.

A thorough reading, systematic coding, and interpretative review of the data-set revealed a story of a crisis in which two activists confronted each other by opposing and endorsing the organization on specific issues, the company responded to its critics by publicizing its achievements and corrective actions, and the media put Ackman, Valeant, and Left's narratives into perspective by highlighting key factors in the story.

Furthermore, two themes were identified to describe the issues, principles and implications of the Valeant case: (1) *stretching the boundaries versus gaming the system* and (2) the *key factors in the Wall Street brawl*. Each theme reflected not only the standpoints of the subjects of analysis as documented in online posts but also the interconnection between these narratives. Following is the evidence of these themes extracted from the sample. According to the methodology parameters, each theme will be presented in terms of the Valeant's stance, activists' stance, and media perspective.

Stretching the Boundaries vs. Gaming the System

This theme included the overarching issues and principles that were discussed in Valeant, Ackman, and Left's posts that were portrayed by the media. In short, this theme described a company that either challenges the system or flouts regulations regarding drug pricing and distribution channels. Bear in mind, this theme defined issues as any topic that triggered future consequences, and principles as the patterns observed in the way those issues were developed.

During the Valeant crisis, the subjects of analysis discussed two main issues: drug price hikes and ties to Philidor[17] —the specialty pharmacy that was part of Valeant's distribution strategy. These main issues encompassed arguments on Valeant's aggressive

[17] According to the Citron reports, Valeant used Philidor and other specialty pharmacies to inflate Valeant's financial statements by reporting as sales the cost of the products sent to the Philidor and other distribution channels. In other words, Philidor's inventory was reported as Valeant's sales. Valeant denied this accusation. However, federal prosecutors charged Valeant and Philidor of deceptive accounting procedures to create phantom sales. See appendix B details.

business practices, quality of information disclosure, channel stuffing—a deceptive business practices to inflate sales by sending to the distribution channels more products than the retailers can sell—fraud to the system, subpoena requests, and media scrutiny.

Following is the discussion of this theme in terms of the activists' stance, Valeant's stance, and the media perspective.

The Activists' Stance. The data showed that on one side, Ackman endorsed Valeant's business model to generate confidence in the investment community by focusing on its return on investment; on the other side, Left casted doubts on Valeant's maneuvers by focusing on its deceptive practices and expedient principles. Consequently, two principles framed Ackman and Left's messages: business means and moral values.

Therefore, two competing narratives were identified: Ackman's stance on Valeant as a company that practices an "unconventional business model that has historically created large amount of shareholder value" (PS01) and Left's stance on Valeant as a company that "not simply raise[s] the price but rather … pushes the limits of every vulnerability it can find across the entire US healthcare system" (CRR02). Now, I will discuss how each activist communicated the Valeant story.

Left claimed that Valeant was "gaming the system" (CRR01) and that the "egregious price hikes … [were] one thread [that] unravels … [a] whole web of deception" (CRR04). In doing so, Left published four online reports between September and November 2015: the first and second reports were titled *Citron exposes Valeant* and *Valeant – What a subpoena would show* respectively. These two reports provided the context of the price gouging problem to support a Congressional subpoena. The third report, *Valeant and Philidor RX. The Big Coverup*, elaborated on a fraudulent scheme, and the third report, *Citron's Last Word on Valeant*, offered a summary of the case and asked for the media, analysts, activists, and prosecutors to continue investigating.

The first Citron report included a chart[18] with a list of Valeant drug price increases between 2013 and 2014, without crediting sources, and a graph from *The Wall Street Journal* exhibiting drug pricing hikes after completing acquisition deals to support a claim on Valeant's "slash and burn strategy for R&D [research and development]" (CRR01). In the second Citron Research report, Left tied the pricing strategy to Valeant's business model of buying rivals and increasing the price of the new products in its portfolio to boots earning reports.

Citron Research reports showed Left's use of financial management and accounting information to build his case on a fraudulent scheme. However, the main focus of the Citron reports was moral values. In Left words, these reports "discuss[ed] moral outrage over Valeant's (NYSE:VRX) twisted strategic assault on the healthcare system" (CRR01). Indeed, he proceeded, "[t]he story we share today has the farthest-reaching social implications of any that we have ever exposed" (CRR01). In the second report, Left defined his audience: "Investors, politicians, and concerned citizens" (CRR02). This approach to Valeant's business exhibited Left's interest to engage with a broader audience—other than the financial community.

By contrasting business versus moral means, all Citron reports alluded to the patients who depend on the pharmaceutical industry and "don't know anything about stock, or anything else except [that] they can't get their medicine" (CRR02). Consequently, Left underlined the collective needs that are satisfied (or threatened) by

[18] This specific chart was mentioned in a Valeantnow.com-statement in response to the first Citron Research Report.

the pharmaceutical industry, health care system, private medical services, and social welfare. This perspective appealed to the recipients' mindset to interpret the messages by using plain and subjective language to express opinions against Valeant's corporate management and references to intangible things such as truth, lie, moral indignation, fairness, and ethics.

> "The Valeant Tactics are Getting Worse Every Day -- at the Expense of Patients and Taxpayers … Citron suggests that Valeant explain to each of these and thousands more patients just trying to cope with their diabetes that it's going to have another great quarter!" (CRR02)

Left not only addressed Valeant's expedient strategy, but also the moral principles driving Ackman's decisions. Citron Research associated Valeant's ability to manipulate the system with the intervention of mutual fund managers such as William Ackman who not only provided funds to run the business but also exerted influence on Valeant's strategic constituencies (e.g., analysts, creditors, and regulators).

Besides, Left contrasted Ackman's position against Herbalife with his support for Valeant. Left recalled how Ackman bet against Herbalife's stock price and conducted an activist campaign arguing that the company was managed as a pyramid scheme in which the customers were fooled by corporate interests. Ackman's claims led to an investigation from the Federal Trade Commission on the Herbalife's marketing strategy.

In one of his reports, Left wondered: "How can he [Ackman] stand by a company that charges over $300,000 a year to cure Wilson's disease? … Where is Mr. Ackman's moral indignation about that? (CRR04).

In a similar way, Left exposed Valeant's corporate management as accountable for wrongdoing by asking if "[c]ould this [Valeant] be the Pharmaceutical Enron?[19] (CRR03). In particular, Left directly addressed Pearson's—Valeant's former CEO—credibility: "he [Pearson] goes on to the next lie, actually a pair of them, namely that: 1) His company is not dependent upon price increases, and that 2) His company has strong organic growth" (CRR02).

Left also questioned Valeant's audit committee, the one the company created to investigate Philidor's business practices, by focusing on the reputation of its chairperson:

> Let us not forget that the head of the Valeant audit committee is Norma Provencio. Mrs. Provencio herself was a director of *Signalife* which was run by now convicted stock fraudster Mitchell Stein. She was in fact his close associate for years -- information now conveniently omitted from her biography. (CRR03)

The third Citron report expanded on Valeant's ties to Philidor that included denouncements of lack of information disclosure and fraud. Left included references to the media and other sources such as a report issued by the Southern Investigative Reporting Foundation (SIRF) that uncovered Valeant's "undisclosed relationships with specialty pharmas, namely Philidor RX" (CRR03). Left reflected about the reasons behind this partnership, the lack of information disclosure, and the implications for the earnings reports based on sales done through Philidor.

Left's last words on Valeant gravitated to "Valeant's civil and criminal culpability for the actions of the Philidor Network" (CRR04). Left listed a series of facts hampering

[19] Enron was an American company in the energy sector that filed for an historic bankruptcy in 2001 after an accounting fraud was unveiled.

Valeant's recovery including negative returns, loss in market share, earning restatements, and the company's inability to pay back its debt.

In contrast, Ackman's strategy focused on supporting Valeant's "unconventional" model to attract the investors' support by denying accusations, providing details on financial management and accounting information, and pointing out Valeant's corrective actions. His statements only addressed Valeant's business model regarding pricing and its ties to Philidor. His posts neither generated additional issues nor discussed moral values.

Ackman's messages, which included financial and accounting language as well as graphs to illustrated Valeant's performance, were directed toward the financial community. He discussed the Citron Research reports in the Pershing Square 2016 annual update presentation arguing that the claims on channel stuffing and accounting fraud were "verifiably false" and that Citron's rationale on Philidor was inaccurate since "accounting for sales to Philidor … [was] more conservative than accounting rules applied for sales made to 'traditional' distributors" (PS01). Ackman's stance disregarded any wrongdoing in Valeant's actions.

Instead, Ackman focused on Valeant's strengths: "Innovative marketing, management, and R&D strategies designed to avoid waste and maximize return on capital; acquisitions of assets in attractive categories; [and adaptation of its Business model] … in response to recent criticism" (PS01). Two months before liquidating his position, Ackman discussed Valeant's situation and focused on its achievements:

> Valeant has achieved significant tangible progress over the course of the year: refreshed Board of Directors, built new leadership team around new CEO Joe Papa, launched asset sale program to simplify portfolio and strengthen balance

> sheet, announced transactions … to generate ~$2.35bn in up-front proceeds with additional future milestones of up to ~$0.35bn, improved investor transparency, implemented new segment reporting, refocused the business to invest for growth …, continued R&D investment, achieved major new product approvals, and formed Patient Access and Pricing Committee to deal with legacy Valeant issues. (PS02)

Ackmans' messages mirrored Valeant's stance especially since he was part of the board of directors between March 2016 and March 2017. Moreover, in both Pershing Square annual update presentations that were analyzed, Ackman expressed his support for Valeant's corporate management.

Valeant's Stance. Valeant's defensive strategy was aligned with Ackman's stance. However, as the following *valeantnow.com*-statement shows, the company's stance evidenced business means and moral values (in terms of subjective language) as well as Valeant's apologetic approach to the issues:

> Valeant has grown quickly over the last seven years, expanding from a small, sleepy business to one with more than $10 billion in sales in 100 countries. Along the way, we've often challenged industry convention. Partly because of that, we've earned our share of criticism. Some of that has been deserved, but much of it relies on misperceptions about who we are. (NV24)

Hence, the *valeantnow.com* posts focused on return on investment and included references to Valeant's management strategy, financial performance, and performance expectations. In consequence, these messages included objective language such as finance and accounting jargon addressing the financial community as well as numbers and performance reports that could be verified by the audience.

The evidence showed that since this information was published in the investor relations website, the target public would be the financial community. Furthermore, since these posts were conceived as responses to Valeant's opponents and the media inquiries, Valeant did not introduce new issues to the discussion. Consequently, Valeant defended its position by acknowledging the issues—usually clarifying the information provided by its detractors—and highlighting its achievements and corrective actions.

Valeant responded to the accusations on channel stuffing and price increases by denying the claims and expanding on its competitive advantage and business model. These *valeantnow.com* posts included terms such as "inaccurate" (VN01, VN06, VN07, VN40), "false" (VN16), "unfounded" (VN14), and "misleading" (VN03) to point out flaws in detractors' statements. These responses usually included a quote from the source opposing Valeant's practice and some details on the business model to refute the accusation.

Also, the majority of the posts mentioned other channels Valeant used to communicate with the financial community, such as "conference call" (VN08, VN10), "press release" (VN21, VN25), and the *valeantnow.com* posts (VN04, VN07) as well as the term "disclosed" or "disclosure" (VN12, VN16, VN20, VN22, VN29, VN37), possibly to evoke the idea of openness and indirectly refute the argument of lack of information disclosure.

Valeant responded to the accusations regarding its ties to Philidor in a conference call in which the management team explained to the investors the details on the agreement with the specialty pharmacy five days after Left issued the third Citron Research report. This conference call covered Valeant's achievements based on its competitive business model as well as Valeant's stance on the legality of the partnership.

There were two main reasons Valeant argued to defend its partnership with Philidor: first, the need to maintain its market share and profitability and, second, their commitment to "provide high service levels to physicians and affordable access to drugs for patients" (VN08). By discussing the results of the Valeant-Philidor partnership, the company group chairman Ari Kellen affirmed this strategic alliance generated "high service levels and high customer satisfaction" as well as "provided Valeant with another platform to growth" (VN08). This approach reflected a combination of business and moral means.

Likewise, through the *valeantnow.com* posts, the former CEO, Mike Pearson, stressed the customers' and employee's support as one of Valeant's strengths:

> We have the right fundamentals in place: a great set of products and brands; loyal physicians, patients and customers, and most of all, you – our employees worldwide who are doing everything you can to provide important medicines to our patients and the doctors who depend on them. (VN32)

Subsequent posts discussing the Philidor-issue geared toward corrective actions. First, even though Valeant did not acknowledge any wrongdoing, they "decided it was appropriate to sever our [Valeant's] relationship with Philidor after allegations about their business practices came to light" (VN16). Consequently, the company partnered with Walgreens, which is considered an established business, for product distribution (VN24).

Second, Valeant appointed an ad hoc committee to analyze Valeant's partnership with Philidor and other matters affecting the company's image.

Valeant stressed the audit committee was ethically sound and independent from the board of directors. The ad hoc committee included people with a career in financial management in the health care sector such as Norma Provencio whose reputation was questioned by the Citron reports. In this regard, the Valeant's CEO by the time said: "Since I [Mike Pearson] have known Norma Provencio, she has acted with integrity and displayed sound business judgment, and I believe that she is exceptionally well qualified to lead our Board's Audit & Risk Committee" (VN20).

Through the *valeantnow.com* posts, the company also addressed the media (VN24, VN29, VN39). However, the majority of the posts portrayed media coverage as negative publicity (VN14, VN21, VN27, VN40).

The Media Perspective. The media reflected Ackman, Left, and Valeant's stances on the issues in compelling narratives geared towards the public scrutiny: "In recent months, however, Valeant has lost momentum as media and regulatory scrutiny of its aggressive drug pricing policies has grown" (NNYT01). In another post, *The Wall Street Journal* cited Sequoia's[20] managers who described Valeant as "an aggressively-managed business that may push boundaries, but operates within the law" (NWSJ04).

The media put into perspective the messages delivered by Valeant and the two activists which meant that all posts included quotes from Valeant, Ackman, and Left and covered the issues referred above portraying Valeant, Ackman, and Left's stances. Therefore, this source also covered business and moral principles related to Valeant's

[20] Sequoia is a mutual fund is Valeant's largest institutional owner with about 10% of Valeant's outstanding shares.

drug pricing strategy and partnership with Philidor. The media posts exhibited less accounting and financial jargon and more concrete language using a vocabulary that could be understood by the general public. Even though the articles included in the sample were located in the business section of the newspapers, *The New York Times and The Wall Street Journal* are not considered specialized newspapers. Therefore, they are directed to a broader audience than the financial community.

The majority of the articles focused on the activists' stances. For instance, *The New York Times* reported on "Ackman's enigmatic investment philosophy" (NNYT02) to reflect on his "aggressive investment strategy" beyond Valeant (NNYT03, NNYT04, NNYT05) and *The Wall Street Journal* reflected on Ackman's (NWSJ05) and Left's (NWSJ07, NWJS08) stances to analyze the Valeant case. Fewer articles used Valeant's stance to frame the message (NNYT01, NWSJ01, NWSJ02, NWSJ03). Nevertheless, the media posts focused on the antecedents of this case to illustrate the reasoning behind Valeant's strategies and activists' actions:

> Before the recent slide, Valeant was among the stock market's best performers. At its August high, it was up over 1,000% in five years, as the company used deal-making to add new drugs –often raising their prices – and won a lower tax rate by relocating to Canada. It also cut costs, including on research. (NWSJ03)
>
> He [Ackman] is also willing to push the boundaries of traditional investment conventions: Last year, he teamed up with Valeant to try to buy Allergan, and had acquired more than $1 billion of its shares in advance of the takeover offer. (NNYT02)

The latter post reflected that the media not only focused on replicating Valeant's and the activists' stances. The news also reported events associated to the Valeant crisis. For instance, the federal investigation Valeant and Ackman faced for their alliance in a takeover attempt on Allergan in 2014. Investors initiated a lawsuit in a federal court in California arguing Ackman and Valeant circumvented the system to profit from the transaction (NNYT01, NNTY04, NNYT05). Even though Andrew Left was not involved with Valeant and Ackman in the Allergan attempt-to-takeover, this topic was included in this theme as a reference of the relationship between Valeant and Ackman previous the Valeant crisis. This was a recurrent topic in the media coverage.

The media also covered Philidor's stance on the Valeant case that was not covered by any other source in this analysis.

> Monday, Philidor said it is working with Valeant over the next 30 to 90 days to help patients in transferring their prescriptions to other pharmacies, ensuring continuity of care. Philidor also thanked employees for their support. 'We remain steadfast that Philidor has adhered not only to all applicable laws but to the highest standards of ethical business practice,' the company said. (NWSJ08)

Likewise, the media reported on the resignation of two members of the board in the Sequoia Fund which is Valeant's major institutional owner. Even though the Sequoia Fund declined to explain the causes of these resignations, when *The Wall Street Journal* published the article, it tied the news to the Valeant crisis: "The cloud over Valeant Pharmaceuticals International Inc. grew larger with the resignations of two of the five independent directors of Sequoia Fund Inc., one of the drug maker's largest shareholders" (NWSJ04).

Additionally, all issues included in the media posts were related to the market reaction which will be discussed in the next theme.

The Key Factors in the Wall Street Brawl

This theme encompassed the consequences derived from the issues and principles previously discussed. The accusations against Valeant on drug pricing and a deceitful distribution strategy through Philidor drove Valeant's stock price down by 95%, set the grounds for legal prosecution, and damaged the company's reputation. These three negative effects hampered the company's survival since they diminished the investors' confidence.

In the long run, these threats translate into the company's inability to generate revenues to pay its debt and stay in business. Therefore, these topics were integrated in a narrative of a company "on the verge of bankruptcy" which Mike Person, Valeant's CEO, denied in March 2016 (VN32), days before leaving his position within the company. Conversely, even though Left did not use the term bankruptcy, his stance on the company led toward that end.

Following is a description of how each subject of analysis described the main drivers in the Valeant crisis which *The New York Times* called "the next big Wall Street brawl" (NNYT01).

The Media Perspective. Even though the media did not use the term bankruptcy to describe Valeant's financial situation, all media posts connected the Citron reports and Valeant and Ackman's responses with the performance of Valeant stocks. Most of the messages referred to the negative impact of the Citron Research reports on Valeant's performance. Fewer posts mentioned the positive impact of Ackman and Valeant's interventions.

On the negative side, the media included expressions such as "[t]he report from Citron Research … set in motion a tidal wave of selling" (NNYT01); "Ackman worked the phones for nearly four hours Friday to defend his $4 billion investment … [b]ut investors responded by dumping Valeant shares" (NWSJ05); "[t]he company has now lost 47% of its value in the past two weeks, since Valeant discussed its relationship with specialty pharmacy Philidor, which it hadn't previously detailed" (NWSJ06); and "Valeant shares skidded to $110 on the news" (NNYT05). These negative messages supported the premise that Left's comments had a negative effect that surpassed Valeant and Ackman's responses.

On the positive side, the media reported fewer messages such as "the stock made up some of the loss after analysts expressed support and shareholder William Ackman jumped in to buy more stock" (NWSJ03) and "[s]hares rose 7.2% Monday, after declining 16% on Friday" (NWSJ07). "The *Wall Street Journal* on Sunday reported that Mr. Left said he didn't plan to reveal anything "earth-shattering" on Monday" (NWSJ07). However, the positive approach that Ackman and Valeant's intervention helped to stabilize Valeant's performance received less coverage than the negative effects.

Regarding the legal threat, the media reported the majority of the news articles included references to (1) the federal subpoena Valeant faced for its pricing and distribution policies, (2) the lawsuit R&O—another specialty pharmacy linked to Philidor—filed against Valeant[21] in a federal court in California, and (3) the lawsuit some

[21] R&O refused to pay an invoice for $69 million that Valeant issued for the sale of its products. R&O argued Valeant failed to provide the proper documentation to support its claim.

investors introduced against Valeant and Ackman in the Allergan takeover. Additionally, some of the media articles referred to the “loosely regulated hedge funds” (NNYT05) controlling the market as well as Valeant’s official request to the SEC “to investigate Mr. Left and Citron” (NWSJ07).

In terms of reputation, the majority of the media posts reflected how the general public and the financial community perceived the images of Valeant, Ackman, and Left while fewer posts replicated what other actors involved in this case had said. Likewise, more posts discussed Ackman’s reputation compared to Lefts’. The former was described as follows:

> [O]ne of Wall Street’s brashest and most self-assured hedge fund managers, [who] was on top of the world. A billionaire before he hit 50, he was generating double-digit gains for his investors and raking in hundreds of millions in fees for his firm and himself. (NNYT05)

In contrast, Left’s description limited to phrases such as the “founder of Citron” (NNYT01), “who heads short-selling research firm Citron Research” (NWSJ06), and “who bet against stocks” (NNYT05). On the other hand, Valeant’s image was recreated based on the news coverage. For instance, to describe the company, *The New York Times* focused on its business model and corporate management: “Mr. Pearson was the architect of Valeant’s business model, in which the company acquired drug makers and jacked up prices on their products” (NNYT05). This post reflected a negative connotation since the previous comment referred to Person and Ackman’s deceitful strategies in the takeover attempt on Allergan. Also, this post tied Valeant’s reputation to its business model.

Valeant's Stance. Valeant's posts also referred to the market effect of the Valeant crisis as well as its legal implications. Nevertheless, Valeant's messages gravitated to its market share (VN01, VN08, VN15, VN18, VN24, VN26, VN30, VN40) instead of its market value (VN16, VN24, VN32) since the latter reflected negative results. In other words, Valeant focused on its competitive strategy to maintain its market share while complying with regulations (VN01, VN08, VN13, VN20, VN21, VN33, VN25, VN37, VN38).

The *valeantnow.com* posts affirmed that "Valeant has the highest U.S. market share in dermatology with over 90 products available" (VN15). Consequently, Valeant stance diminished the effect of loss in market value focusing on the portion of the market that it controlled and the business strategies supporting that position. As a multinational company, Valeant has businesses in 100 countries including emerging and developed markets. Therefore, the Valeant posts also appealed to "economic factors" (VN09, VN14) affecting the company's performance which wasn't mentioned by the media or Andrew Left.

Regarding the legal threat, Valeant "confirmed that it received a subpoena from the SEC in the fourth quarter of 2015" (VN29) and the attendance of the company's managers to the Congress hearings on pricing and distribution practices (VN31). In another post, the company informed about the investigation conducted by the Attorney's office for the Southern District of New York without providing further details on the matter (VN37). Another *valeantnow.com* post referred to two lawsuits against the company, one filed by a former employee and the other by QLT which is a company that Valeant acquired in 2012. The former employee alleged "disability discrimination, harassment and retaliation, among other things" (VN11) while QLT argued that Valeant failed to meet some clauses in the acquisition agreement (VN21). In both cases, Valeant denied the accusations.

Even though Valeant recognized the legal threats, the company publicized its compliance with legal procedures through its investor relations website. The data showed statements such as "Valeant continued to file *Sanitas* financial filings to comply with local law requirements" (VN01), "[i]n accordance with the corrections procedures outlined by the Internal Revenue Code" (VN13), and "in compliance with applicable SEC rules" (VN20) as Valeant's attempt to offset a "negative publicity" (VN21).

Regarding the reputational risk, only one *valeantnow.com* post mentioned the reputational risk. A repost of the Pearson's letter to Valeant employees, included the company's concern for restoring its reputation and public's confidence (VN32). Without going into details, Valeant acknowledged the impact that the investigations and negative publicity have had in Valeant's image. In another Valeant post, the company reiterated its intention "to uphold the highest standards of ethical conduct as we [Valeant] move forward with our mission to improve people's lives with our healthcare products" (VN37).

The Activists' Stance. As a mutual fund manager, Ackman's stance focused on Valeant's market share and market value. Ackman highlighted Valeant's "market leadership in dermatology, gastroenterology, ophthalmology, and consumer health products" as well as its organic growth since 2014 (PS01). Furthermore, Ackman stressed that Valent "retained ~80% of volume" in spite of the "Philidor disruption" (PS01). This approach showed Ackmans' confidence in Valeant business model during the crisis.

Moreover, in the Pershing Square 2017 annual update presentation, Ackman highlighted his participation in a new leadership in Valeant, after he joined the company's board of directors. He affirmed this strategy was "part of Pershing Square's effort to stabilize the company and protect our [the mutual fund] investment" (PS02).

Regarding the market effect, Ackman included a chronological report of events and share value to connect the company's performance with the news (see appendix F). Additionally, Ackman referred to the legal threats. The Pershing Square 2016 annual update presentation mentioned the subpoenas against Valeant regarding its pricing and distribution strategies (PS01). Ackman did not refer to the reputational risk.

As a short seller, Left focused on damaging Valeant's reputation by unveiling the company's wrongdoing and ties to a scheme of fraud against the US healthcare system. Left's attack was not limited to Valeant's market share or market value; instead, he touched the human fiber of the readers by mentioning the patients and taxpayers who suffered the consequences of Valeant's maneuvers (CRR01, CRR02, CRR03).

> Unfortunately, from a systemic perspective, just about every American is worse off as a result of Valeant's strategy. Increased drug prices also drives higher health insurance premiums for every policyholder in the entire country, and higher deficits for the Federal Government, which bears Medicare costs. Meanwhile, no one is getting any incremental benefit; Valeant has made little to no effort to improve these products… The obvious point that a vast amount of all drug research begins with National Institute of Health (NIH) Grants -- funded by all US taxpayers. Drug companies are all beneficiaries of this fundamental

expansion of science, the intent of which is to make life better, for all of us. (CRR01)

Besides, Left reiterated not only that Valeant's "reputational damage is not easily undone" but also that it will hamper Valeant's ability to generate revenues and payback its debt (CRR04). Additionally, Left's narrative gravitated to the Congressional subpoena and court filing against the company as arguments to support his claims of Valeant's fraudulent business model.

This theme also included the main characters driving the Valeant story as well as their credentials as portrayed in the sample messages. Therefore, this theme integrated the people and entities that had an impact in the evolution of the Valeant crisis such as politicians, regulators, media outlets, financial analysts, and activists who influenced the messages that were delivered by Valeant, the two activists, and the media during the crisis. While politicians (e.g., Hillary Clinton and Bernie Sanders) and regulators (e.g., the SEC and the Congress) were associated with a legal threat, the media outlets (e.g. *The New York Times*, *The Wall Street Journal*, *CNBC*, and *Bloomberg News*) were associated with a reputational risk. Meanwhile, activists and financial analysts were linked to the market effect.

After describing the themes that emerged from the interaction between Valeant, two activist investors, and the media in the context of a case study, in the next section I will analyze how these themes provided material to inform financial public relations literature and support this research's inquiry of how stockholder activism shapes investor relations.

Discussion

This qualitative research focused on the interaction between Valeant, two activist investors, and the media in the context of a case study. The data supported this premise by presenting two themes in which competing narratives converged. *Stretching the boundaries vs gaming the system* suggested not only a point of confrontation between the subjects of study but also the value judgment implied in that confrontation. *The key factors in the Wall Street brawl* reiterated the confrontational approach and added the forces framing the outcomes.

Consequently, the themes that emerged from the messages delivered by Valeant, the two activists, and the media in the context of a corporate crisis provided the material to analyze how this case of stockholder activism shaped Valeant's investor relations strategy. Following is the discussion of this case study to expand financial public relations literature, the practical implications of this research, and the limitations of the study and future research.

A Response to Stockholder Activism through Investor Relations

The business scholars Ryan and Jacobs (2005) defined strategic investor relations as the process of aligning the company's financial performance with the public's perception of that performance to guarantee the support of the financial community. This organization-centered approach is limited to the information that organizations generate, assuming that even a bad financial performance could be delivered in a positive way. In doing so, investor relations practitioners must focus on defining a positive image of the company, delivering a consistent message, and maintaining an effective dialogue with the financial community. The premise is to control the message in terms of financial (numbers) and non-financial (perception) information.

From the organizational perspective, Valeant failed to effectively control the message since, on one side, the company's financial performance was in a downward trend and, on the other side, external factors (e.g., activists and the media) determined not only how the financial community perceived Valeant's financial performance but also what issues were discussed. Even though Valeant created a link to connect with its strategic constituencies, defined its image, and delivered a consistent message, this tactic was ineffective because the issues imposed by other actors (e.g., activists, politicians, regulators, and the media) framed Valeant's messages. As a result, the public scrutiny hindered the stock recovery and the investors' support. It was a vicious circle that Valeant's detractors controlled.

As the data showed, the media and Citron Report introduced the issues under discussion: drug price gouging and a fraudulent distribution strategy through Philidor. According to the results of this study, the investor relations strategies should focus not only on selling the company's image (definition, delivery, and dialogue) but also on framing the issues under discussion.

In a similar way, communication scholars have argued that effective investor relations should not be measured through the company's financial performance since investor relations practitioners cannot control financial factors (Ragas et al., 2014). Consequently, investor relations literature values nonfinancial disclosure over financial reports as the most effective way to build the company's reputation. Hoffman and Fieseler (2012) and Laskin (2016) provided a framework to build the company's image including references to customers, employees, regulatory compliance, business model, media coverage, public support, and consistency in management and communication. This approach is also organization-centered since it failed to provide tools to deal with counter narratives generated outside the organization.

The *valeantnow.com* posts portrayed a positive image by referring to Valeant's "loyal physicians, patients and customers" (VN32), acknowledging the value of its employees, stressing its competitive advantage (market share), publicizing its compliance with regulations, and expressing its support to the management team.

However, the *valeantnow.com*-statements referred to a negative media coverage and reputation damage. None of the posts mentioned the media as an ally of Valeant's communication strategy. In addition, the negative publicity gravitated to Valeant's fraudulent activities, meaning lack of regulatory compliance. Regarding consistency, one of Valeant's overarching strategies was publicizing corrective actions besides the sudden change of the company's CEO which denoted lack of consistency in management. Finally, Left (one of the activists) highlighted the company's lack of information disclosure, meaning lack of consistency in communication. In the attempt to regain the public's confidence, Valeant denied the accusations to point out the detractors' flaws. Valeant's communication strategy was shaped by the issues and value judgment other actors imposed.

Likewise, Chandler (2014) provided a more public-centered approach to investor relations. She studied the challenges CEOs face when building relationships with the financial community in terms of trust, satisfaction, control mutuality (mutual influence), and commitment. Chandler's study also evidenced the two-way communication process in which organizations and publics engage which Kelly et al. (2010) associated with organizational effectiveness.

In this context, previous investor relations research stated that when looking for information about the company, the investment community value more the material provided by the company's investor relations department than the information generated by the media (Penning, 2011). In the Valeant case, while Valeant defended itself through the *valeantnow.com* posts, the media reported, in most of the cases, the activists' narratives. One of these narratives endorsed Valeant's strategy, the other opposed it, thereby creating two different stories—a company that complies with or flouts the rules—to describe the same issues: Valeant's drug pricing and distribution practices.

Based on the current literature, it would be expected that the information provided by Valeant's investor relations department—through the *valeantnow.com* posts, conference calls, news release, and meetings with investors—would offset the negative publicity and stabilize Valeant's performance. As far as the events unfolded, in the interaction between Valeant, the two activists, and the media, the negative references surpassed Valeant's attempt to repair its reputation and meet the investors' expectations—generate positive returns on investment. Hence, organizational effectiveness was affected by Valeant's financial performance, the issues under discussion, and the public perception about that performance.

For instance, when Left and the media pointed out Valeant's price gouging, they not only focused on the issue but also on its implications (stressing reputational damage, a legal threat, and the risk of bankruptcy). While the company's detractors discussed Valeant's reputation (lack of trustworthiness and transparency) to cast doubts on its business practices, Valeant responded by publicizing its market share and corrective actions (complying with regulations) and highlighting that it listened to its strategic constituencies (reputation). In other words, the discussion was framed by *the key factors in the Wall Street brawl*: reputational risk, legal threat, and market forces.

Consequently, investor relations practitioners should evaluate the company's ability to effectively respond not only to the activists' attack but also to the external forces framing the discussion which, in the Valeant case were reputation damage, a subpoena threat, and the risk of bankruptcy. In short, the strategy should count for who holds the power to influence others and/or disrupt their access to resources.

In sum, Valeant's strategy to build a positive image and gain legitimacy in the investment community was diminished by Left's counter narrative and the media coverage. In other words, the discussion focused on the perception of a company that was *stretching the boundaries or gaming the system* while struggling to recover its market value. Since Valeant's investor relations response failed to offset the negative publicity and gain the investors' support, an effective strategy should consider what Smith and Ferguson (2010) called the "legitimacy dance" in which activists and their targets engage in terms of issues, principles, and implications.

An Update of Strategic Investor Relations

According to the behavioral strategic management approach driving this research, investor relations applies not only to building relationships in the good times but also to counseling executives during a corporate crisis (Hong & Ki, 2007). Moreover, investor relations scholars should offer strategies to respond to activist investors. However, as this discussion has shown, the current literature in the field fell short in the analysis because scholars have failed to integrate investor relations and shareholder activism research. This study provided evidence to fill that gap.

First, the results confirmed there is an interconnection between what the organization, the activists, and the media say; therefore, none of these messages should be studied in isolation. Second, each actor questioned the others to gain self-credibility while diminishing the other's reputation; hence, this legitimacy contest is an important factor to understand the communication behavior. Third, even though each actor had a sphere of influence, not all actors have the same ability to control the messages; consequently, a strategic response to shareholder activism must observe who controls the message and how this power is exercised.

Therefore, these findings contribute to investor relations scholarship by addressing, in light of public relations literature, three core concepts that shaped Valeant's investor relations strategy: issues, legitimacy, and power.

Issues. The Valeant crisis offered a peculiar case of shareholder activism because two activists confronted each other to endorse and oppose one organization. According to communication studies, activism refers to the confrontation between organizations and publics, but, as this study showed, this is not always the case. However, Smith's (2005) definition of activism accurately describes the Valeant case: activism is a "process directed toward change of policies, practices, or conditions that the activists find problematic" (p. 5).

It is clear that Left's accusations aimed to change Valeant's' policies, practices and conditions regarding its pricing and distribution practices that he deemed moral outrage. Besides, Left's stance also limited the organization's effectiveness, as Grunig

(1992) might suggest, by imposing the issues Valeant discussed. However, even though Ackman supported Valeant's corporate management, as an activist, he also demanded some changes within the company when he asked for a seat in the board of directors. Consequently, activism relates to a request for change in specific issues.

The results of this case study exhibited first, the interconnection between Valeant, Ackman, and Left's narratives; second, how these narratives gravitated to the same issues; and third, how these issues weakened the company's image. Since investor relations scholarship ties strategic communication to the messages organizations can control (image creation), this research suggests to add a more public-centered approach to that process of image creation by integrating issues management in the definition, dialogue, and delivery stages that Ryan and Jacobs (2005) proposed.

In other words, the definition stage would not only focus on the references to customers, employees, regulatory compliance, business model, media coverage, public support, and consistency, as communication scholars have suggested, but also focus on the activists proposition on the issues to identify future threats and respond accordingly. The delivery stage would include not only corporate communications but also media and public relations to effectively reach the strategic constituencies. As the Valeant case showed, media coverage portrayed the activists' stances in lieu of the *valeantnow.com* posts. As Ryan and Jacobs (2005) argue, the dialogue stage should be a long term commitment with the investors. However, adding the issues management approach, this phase also would include engaging with the activists to discover common grounds.

Legitimacy. Legitimacy is established in terms of what the target audience perceive and what the target audience expect (Smith & Ferguson, 2010). Valeant and

Ackman engagement can be understood as an alliance to gain legitimacy since their reputation (aggressive competitors that generate high returns) preceded their actions. In contrast, Left's campaign through the Citron Research reports can be understood as a scenario to test his legitimacy not only in the investment community but also in the media.

Uysal (2014) affirmed that organizations implement changes in order to gain or reestablish their legitimacy. Conversely, activists gain legitimacy by (a) making issues relevant to the organizations and (b) generating the desired change. Therefore, this case study showed the legitimacy dance in which Valeant, the two activists, and the media engaged.

While Valeant and Ackman appealed to business principles (financial information) to establish their credibility, Left evoked moral values (non-financial information) in the general public to question Valeant and Ackman's legitimacy. Meanwhile, the media put these narratives into perspective, in most of the cases, replicating Left's moral inquiries. Consequently, Valeant and Ackman's legitimacy was tied to financial performance (stock price and return on investment) while Left's legitimacy was tied to its knowledge on the business, the accuracy of the information provided, and the relationships he had established with the public opinion and the media.

In the end, Left attained his goal by making his inquiries relevant and triggering change. In Perrault's (2015) words, this case portrayed the "role of activists in initiating and thrusting institutional change" (p. 162). On the other hand, even though Valeant implemented corrective actions to face the opponent's demands, it failed to meet the investors' expectations. Ackman withdrew his position on Valeant to offset the public scrutiny on his investment strategies. Bear in mind that as a hedge fund manager, Ackman relies on his reputation to maintain his business. In short, the legitimacy dance was led by the opponent-side hampering the organization’s effort to regain the investors’ support.

From a behavioral strategic management approach, this research argues that investor relations literature must provide strategies to gain and maintain the organizations’ legitimacy since activism arise when “shareholders … experience distrust toward a firm, questioning the legitimacy of its practice” (Perrault, 2015, p. 150). Consequently, legitimacy should be established before a crisis hit in order to successfully maintain it during the crisis. However, this legitimacy should not be tied only to financial performance, meaning the stock price, since a drop in market value also implied a legitimacy loss. In public relations studies, corporate social responsibility has been considered an effective strategy to build confidence in the general public and maintain organizational legitimacy.

Power. In activism studies, power can be exercised by influencing others or disrupting others’ access to resources (Smith & Ferguson, 2010). As stated, an update in strategic investor relations should consider who controls the message and how this power is exercised. De Hond and De Bakker (2007) and De Baker and Den Hond (2008) explained that activists threaten organizations in terms of material capital and symbolic capital. In the Valeant case, stockholder activists threatened the company’s access to funds to run the business by casting doubts on its business model. In short, money and reputation were at stake.

Before the crisis, the financial community supported Valeant business model since it generated positive returns. Therefore, the company assured plenty of capital through the stock market to run the business. When the crisis hit, a wave of selling disrupted the company's access to funds. In response, the company had to adjust its business strategy. For instance, in terms of financial management, Valeant sold some assets to pay debt obligations. In terms of investor relations, Valeant created the link *valeantnow.com.* This strategy corresponds to the business-oriented studies in investor relations arguing that the financial community value more the information generated by the organization than the media (Penning, 2011).

In contrast, communication studies in shareholder activism argued that the media is an effective channel to reach the target audience when activism arise. Ragas (2013) affirmed that organizations and activists influence media coverage and vice versa. In the Valeant case, only Left addressed the media as an ally. Conversely, Ackman and Valeant referred to media coverage as negative publicity. Meanwhile, the majority of the media messages portrayed the activists' stance and only a few referred to the Valeant's stance.

In this case, power was exercised in different ways. Left influenced media coverage to reach a broader audience than the financial community to disseminate his accusations against Valeant by seeking civil and criminal charges against the company. Ackman and Valeant influenced the financial community to promote Valeant's strengthens and seek the investors' support. Even though Ackman supported Valeant's business strategy, Left managed to portray this endorsement as another factor to question Valeant's business model. Indeed, Ackman's support (e.g., he increased his stake in the company) translated into a higher drop in Valeant share price. In the end, Valeant faced reputational damage, lost in market value, and federal prosecution due to its drug pricing and distribution practices while Ackman had no other recourse than withdraw his support for Valeant.

Furthermore, only Left had the power to control the messages and disrupt the other actors' access to resources without being affected by the outcomes. The results showed that Left's strategy to identify controversial issues, appeal to the media, and frame the discussion in terms of legal, economic, and moral factors was effective.

In financial management it is assumed that security valuation reflects not only the company's numbers but also all information related to the stock that is available to the public. Therefore, companies must work on public scrutiny to recover financial performance. As the data showed, Valeant did not recover after the news hit while its communication strategy had little or no effect in the stock performance. In contrast, while Left's messages dominated the media coverage, the negative reaction from the financial community (drop in the stock price) prevailed.

Two factors affected the outcome in this case. First, Valeant's stake was greater than Left's as it usually happens in cases of activism. Second, Valeant and Left took different approaches to the media coverage which translated into Valeant's (in)ability to control the message in the public opinion. As a result, Valeant was unable to cut off the vicious circle (negative news-negative performance-negative news) because it failed to effectively engage with the media.

An update in strategic investor relations should include media relations and not corporate communications as a core tactic to guarantee investors' support. In the end, the financial community not only learned about the company through its investor relations website and financial reports but also through the media which always holds the power to say what issues are relevant and create or damage the actors' reputation. Even though organizations cannot control media coverage, this case showed how important it is to engage with the public beyond the financial community to avoid a vicious circle between the public scrutiny and negative financial performance.

In summary, this research argues that in the Valeant case, stockholder activism implied a corporate response to the activists' request for change in specific issues, a question of legitimacy triggering that change, and a contest for the power to implement those changes and control the outcomes. In other words, the Valeant's investor relations response was shaped by matters of issues, legitimacy, and power.

Implications

This research exhibits theoretical and practical implications. First, it is relevant because it is the first thematic analysis of financial public relations and stockholder activism; second, this research contributes to an emerging trend in public relations scholarship that reconciles business and communication research; and third, these findings provided the following strategies to update the practice of investor relations:

1. Investor relations must focus not only on creating the company's image in the financial community but also on managing the issues that are discussed in the public opinion. In the Valeant case, specific issues were tied to the company's business model/image hampering its financial recovery. Therefore, strategic investor relations must cover issues management.

2. Investor relations must address not only the company's story based on its financial performance and how this story is communicated to the financial community

but also the values shaping the story and how these values transcend the financial performance. Consequently, strategic investor relations must be understood from a more public-oriented perspective counting for the legitimacy contest implied in stockholder activism.

3. Investor relations must acknowledge not only the company's strengths (e.g., access to resources, market share, competitive advantage, and positive returns) but also the activists' power to influence the public opinion and disrupt the organizations' access to resources. Ergo, strategic investor relations must include crisis management training to identify controversial issues, establish alliances with the media and other factors of power (e.g., regulators, politicians, and influencers), and create strategies to recover from negative outcomes before the crisis hit. Furthermore, the Valeant case exposed the need for a more proactive approach to investor relations. Since the current literature in financial public relations fails to address shareholder activism, investor relations strategies are limited to a reactive approach to activism.

Limitations of Study and Future Research

This study circumscribed to an emerging trend in public relations that integrates literature on different fields. I did exhaustive research of journals in different disciplines to identify the core concepts guiding the research discussion. However, in order to effectively report the case, not all literature written in business and communication could be reflected in this paper. For instance, in line with this research, future studies should elaborate on the quality of the relationship building between corporation and activists in terms of trust, satisfaction, control mutuality, and commitment and how these variables shape the issues that are discussed, contest the actors' legitimacy, and reflect power.

Moreover, in public relations literature, research on investor relations has been limited due to the scholars' lack of interest and expertise in finance. Therefore, even though this research combines my interest and expertise in communications and finance, in order to effectively engage communication scholars in the investor relations discussion, the case report and discussion is framed by a reflection on communication behavior. In a second stage, this research should consider more financial data to expand the analysis.

Regarding the research methodology, I had to limit the data to 59 articles related to the Valeant crisis, instead of a broader sample (e.g., documents generated before and after the crisis, SEC filings, letters to shareholders, and media content other than online newspapers) since a thematic analysis demanded a thorough reading of each unit of analysis as well as a reflective process to interpret the themes. Future research should include a quantitative approach and a greater sample to observe the interaction between Valeant, Ackman, Left, and the media in terms of issues, legitimacy, and power and provide statistics on (a) corporate communication versus media coverage, (b) activism versus media coverage, and (c) corporate communication versus activism.

Lastly, this study approached media coverage through the analysis of two newspapers. However, future research should include the effect of social media, such as Twitter, in this interaction. Additionally, even though this case has contributed to an update of strategic investor relations, other cases should expand this line of research.

Appendix A

Valeant: Background Information

Valeant is a multinational pharmaceutical company, founded in 1960, headquartered in Canada, and traded in the New York Stock Exchange (NYSE) and the Toronto Stock Exchange (TSX) since 1994 (stock symbol: VRX). Its business is focused on developing, manufacturing, and marketing pharmaceuticals, over-the-counter products, and medical devices (Valeant, 2017c). In November, 1994, the company filled its initial public offering (IPO), which is the legal transition from private to public company. In 2010, Biovail, a Canadian pharmaceutical company, bought Valeant in a $3.3 billion deal. After the merge, the new company keep the name Valeant.

Valeant's senior managers are Joseph Papa[22] (chairman and CEO), Paul Herendeen (executive vice president and chief financial officer, CFO), Christina Ackermann (executive vice president and general counsel), and Thomas Appio (executive vice president and president international). There are 10 members in the company's board of directors including academics and experts in the healthcare sector and financial services. Among them, Robert Hale, partner of Value Capital, represents an activist mutual fund.[23] A breakdown of the company's major holders indicates that 389 institutional investors hold 52% of the company's shares and 16% of them are mutual fund holders (CNN, 2017). Valeant's market value, by March 2017, is $4.64 billion with 347.87 million shares outstanding (Valeant, 2017, March 31).

---

[22] Valeant's former CEO was Mike Pearson.

[23] Until March 2017, Ackman was a member of the Board of Directors. According to the SEC report filed by Valeant on March 17, 2017, Ackman decided "not to stand for reelection to the Board at the next annual meeting" after liquidating his position in the company (Valeant, 2017, March 17).

Appendix B

Valeant Crisis

In April 2015, Valeant "raised the price of two cardiac-care drugs by 525% and 212%" respectively (Langley, 2015, November 05, Losing Bets, para 11), encouraged by an expansion on the inventory of the company's patents to produce the drugs. Consequently, federal prosecutors sent a subpoena asking for the company's price and distribution policies. Members of the Congress and Democrat presidential candidates Hillary Clinton and Bernie Sanders also made public statements to question how the company set the prices of drugs.

In October 2015, activist-short seller Andrew Left accused Valeant of accounting fraud through Philidor RX Services (Philidor), an intermediary in the drugs' retail business. First, Valeant denied the accusations, then the company accepted that it had a stake on Philidor since 2014 "but had never disclosed that details to investors" (Thomas & Goldstein, 2016, November 17, para 7). Furthermore, Philidor's financials were included in Valeant's financial statements which qualifies as accounting fraud—failure to provide accurate information regarding the company's financials. Thomas and Goldstein (2016, November 17) reported the news:

> The [federal] prosecutors charged the two executives—Andrew Davenport, the chief executive of the mail-order pharmacy Philidor RX Services, and Gary Tanner, an executive at Valeant Pharmaceuticals International—with multiple counts of fraud and conspiracy for what prosecutors described as a multimillion-dollar scheme to enrich themselves. (para 3)

By the end of 2015, Michael Pearson, then the company's CEO, made public statements about the company's inability to meet its financial projections for 2015. However, Pearson affirmed, Valeant was strong enough to overcome the crisis and maintain its projections for 2016. After issuing these statements, Pearson signed for medical leave and the company's CFO, Howard Schiller, was named interim CEO (Hopkins & Armstrong, 2016, December 16).

In February 2016, Valeant's executives attended congressional sessions to explain the company's pricing tactics while Pearson reassumed as the company's top manager. In a particular meeting with investors, in March 2016, the company's CEO stated that a typo error caused the company to overestimate its earnings target (Hopkins & Armstrong, 2016, December 16). Meanwhile, William Ackman voiced his support for Valeant's business strategy, increased his stake in the company, and gained a seat in the company's board of directors.

In April 2016, Pearson stepped down his position within the company, and Joe Papa was named CEO. Papa entered the scene justifying the company's failure to meet the financial community's expectations. He affirmed the company was adopting the required measures to overcome the crisis as an attempt to regain the confidence of the investment community.

During 2016, while the company was questioned on its financial disclosure, Valeant missed the deadlines to fill financial statements and accounting reports to the SEC, which is a legal requirement for any public company. The company investment strategy was also scrutinized by its stakeholders. By the end of 2016, Valeant sold part of its assets to increase its liquidity and deal with the company's lost in market share, a strategy that was rejected by most of Valeant's stockholders (Cyran, R., 2017, January 10). In addition, Valeant expanded its bond market, increasing the company's debt up to $30 billion (Koons, 2017, February 28).

The Activist Investors. Between 2015 and 2016, Valeant's investment strategy was closely followed by activist investors. Even though William Ackman initially supported the company's business strategy by taking a seat on the company's board of directors, two years later he quit his supporting strategy taking a $4 billion loss. Meanwhile, Andrew Left accused the company of mismanagement by unveiling Valeant's relationship with the drug's retailer Philidor.

William Ackman, also known as Bill Ackman, is a hedge fund manager and the CEO of Pershing Square.[24] His investment strategy focuses on buying large stakes in undervalued companies. He has targeted companies such as Target, JC Penney, Herbalife, Allergan, Procter & Gamble, and Mondelez International (former Kraft Foods), seeking for board seats or the companies' split or sales (Benoit, 2015, October 5; Lee & Schloetzer, 2014).

According to Lee and Schloetzer (2014), Ackman's main activist strategies are to issue public statements and presentations in which he challenges the company's corporate management, questions its valuation, or requires board seats. In fewer cases, he has initiated a proxy contest, an official request to the SEC in which an activist seeks to intervene in the company's corporate management. Ackman's high stake in Valeant drove Pershing Square's negative performance in 2015 and 2016 (figure 3). The financial media reported Ackman's bet generated a loss of $4 billion for Pershing Squares'

---

[24] According to the financial news media, Pershing Square currently manages more than $11 billion in assets.

investors. Finally, in March 15, 2017, he liquidated his position on Valeant and left the company board.

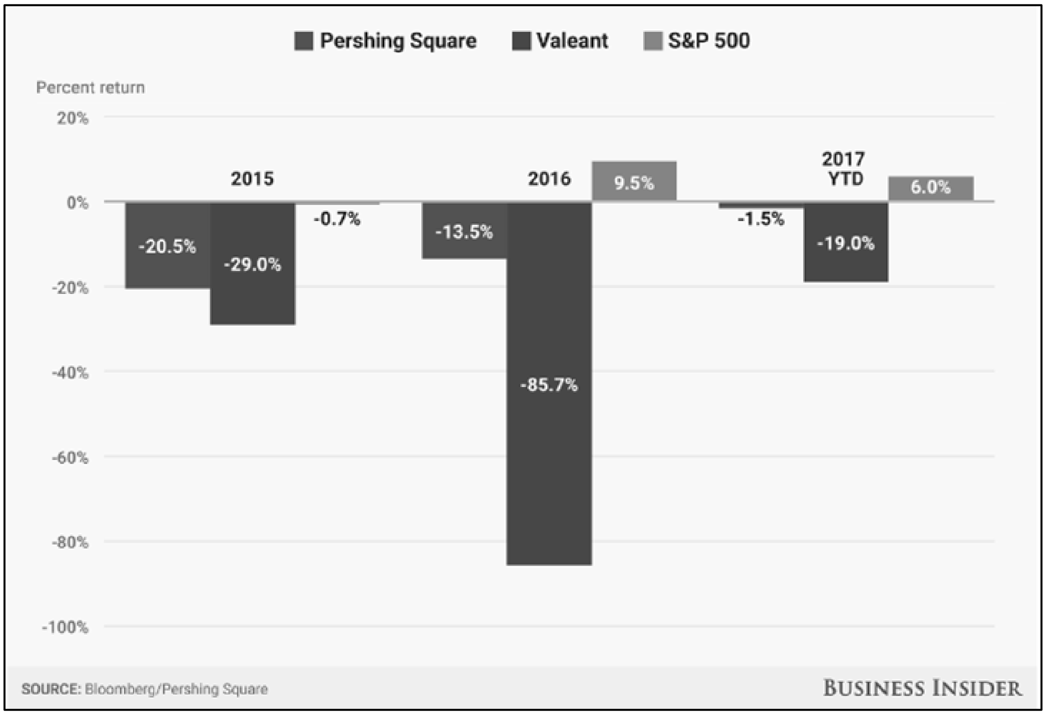


Figure 3. Pershing Square's performance 2015 through 2017, compared to Valeant's and the S&P 500's performance[25] (Levy, 2017, March 13).

Andrew Left is a short seller activist and CEO of Citron Research, a stock-commentary website known in the financial community for making public statements on companies' financial mismanagement. As activist investor, his investment strategy is to bet against companies' stock prices in order to make profit from share drops. Through Citron Research, Left has leaded more than 150 reports raging from accounting to business failures. "More than 50 companies covered by Left have become targets of

[25] The Standard & Poor's 500 is an American stock market index that follows the performance of the top 500 large companies, by market capitalization, traded in the NYSE and NASDAQ stock markets.

regulatory interventions" including charges of fraud and bankruptcy filings (Citron Research, 2017, Regulatory Interventions). *The Wall Street Journal* investigated 111 reports generated by Andrew Left through Citron Research, concluding that on average the target companies have had a "decline of 42% [in the share price] in the year after a Citron report was released" (Wirz, 215, October 23).

In the case of Valeant, Left argued the company was "secretly controlling two little-known drug distribution companies [Philidor and R&O Pharmacy[26]]… to create "phantom sales and false revenues in an effort to deceive auditors and investors" (Goldstein, Stevenson & Eavis, 2015, October 21, para 6). In addition, Left disclosed to the financial media that in 2015 "he had placed a bet against Valeant" (Goldstein et al., 2015, October 21, para 17).

[26] Citron Research identified Philidor RX Services and R&O Pharmacy as "specialty pharmacies that fill prescriptions for certain types of drugs made by Valeant" (Goldstein, Stevenson, & Eavis, 2015, October 21, para 6).

Appendix C

Units of Analysis

Valeant Folder

Category	Title	Code
Valeantnow.com-statements	Response to AZ Blog Claim: "let me say right away as categorically as I possibly can that the $99M [in Sanitas cash generated] claimed by Valeant is a lie"	VN01
	Response to AZ Blog Claim: "Somehow we're supposed to believe that those 11 acquisitions generated more cash than the whole company generated in cash flow from operations"	VN02
	Response to AZ Blog IRR Examples	VN03
	Response to AZ Blog Claim Regarding Solodyn Sales History	VN04
	Response to Citron Report	VN05
	Responses to Veritas Report	VN06
	Responses to Citron Report	VN07
	Valeant Pharmaceuticals International, Inc. Investor Conference Call Presentation	VN08

October/ November Message Boards Response Statement (Allegations of “channel stuffing”)	VN09
Valeant To Hold Conference Call For Investors To Provide Business Update	VN10
Response Statement to Allegations Regarding a Lawsuit Brought by Former Valeant Employee	VN11
Response Statement Regarding Clerical Error in Delivery of Shares	VN12
Response Statement Regarding Clerical Error in Delivery of Shares	VN13
Response Statement to Allegations Regarding Inventory Levels	VN14
Statement on JAMA Dermatology Study	VN15
Response Statement to Bronte Capital Allegations	VN16
Comment on Twitter Account	VN17
Valeant Statements Regarding December 9 Hearing by Special Committee on Aging	VN18
Statement Regarding Management Change at Sprout Pharmaceuticals	VN19

The Facts on Norma Provencio's Tenure as a Director of Valeant Pharmaceuticals	VN20
Response Statement on QLT Litigation	VN21
Valeant Comment on Bloomberg News Report Regarding Wellbutrin XL	VN22
Valeant Statement Regarding Norma Provencio's Investment in Signalife	VN23
Op-ed by Robert Ingram and Howard Schiller, "How we're fixing Valeant"	VN24
Valeant Response to Anonymous Seeking Alpha Article from 21 January 2016	VN25
Valeant Statement on Oversight Committee Release of Documents	VN26
Statement Regarding Howard Schiller's Employment Letter	VN27
Statement Regarding the Relative Impact of Price and Volume on Growth	VN28
Valeant Statement on SEC Investigation	VN29
Valeant Statement on D.H.E. 45 (UPDATED)	VN30
Statement Responding to the March 10th Letter from the House Oversight Committee	VN31

	Message to Valeant Employees from Mike Pearson	VN32
	Valeant Statement on Seconal	VN33
	Valeant Statement on Management Cease Trade Order	VN34
	Statement Responding to the April 12th Letter from Congressman Elijah Cummings	VN35
	Statement on J. Michael Pearson's Stock Ownership	VN36
	Valeant Pharmaceuticals Comments On SDNY Investigation	VN37
	Statement on Shareholder Litigation	VN38
	Valeant Comments On Discount And Rebate Program For Nitropress And Isuprel	VN39
	Valeant Corrects Inaccurate Statements Regarding Calcium Disodium Versenate (CDV)	VN40
	Activists Folder	
Pershing Square's Annual Update	Annual Update Presentation. January 28, 2016	PS01

	Annual Update Presentation. January 26, 2017	PS02
Citron Research Reports	Citron Exposes Valeant	CRR01
	Valeant – What a Subpoena would Show	CRR02
	Valeant and Philidor RX. The Big Coverup	CRR03
	Citron's Last Word on Valeant	CRR04
	Media Folder	
News articles: *The Wall Street Journal*	Valeant Rebuts Critical Report that Pummels Stock. Shares declines more than 15% after declining as much as 40% earlier Wednesday	NWSJ01
	Valeant to Hold Conference Call on Monday to Address Critical Report. Recent criticism of its business practices sent Valeant's stock price tumbling this week	NWSJ02
	Valeant Struggles to Rebut Critics	NWSJ03
	Two Sequoia Board Directors Quit. Fund is Largest Valeant Shareholder. Vinod Ahooja and Sharon Osberg quit board over the weekend	NWSJ04

	Bill Ackman: Valeant Could Have Handled Pharmacy Relations Better. Investor criticizes Valeant for not addressing Philidor issues more quickly, forthrightly	NWSJ05
	Valeant Short Seller Dials Back Warning of Bombshell Report on Monday. Valeant calls claims by Andrew Left of Citron Research false and misleading	NWSJ06
	Short Seller's Valeant Report Offers No New Allegations. Andrew Left of Citron says his work on Valeant 'is done'	NWSJ07
	Philidor to Wind Down Operations. Pharmacy saw partnership end following controversy involving Valeant	NWSJ08
News articles: *The New York Times*	Valeant's Shares Fall on Report's Fraud Claim	NNYT01
	Bill Ackman's Enigmatic Approach to Valeant Pharmaceuticals	NNYT02
	William Ackman Raises Valeant Stake to 9.9% from 5.7%	NNYT03
	How a Big Wager on Valeant Played Out	NNYT04

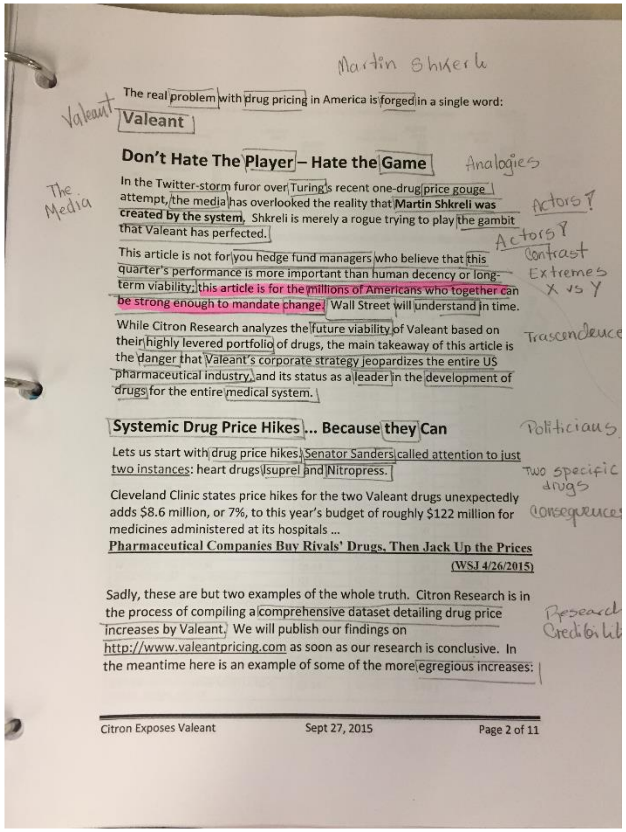
Hedge Fund Titan's Surefire Bet Turns into a $4 Billion Loss	NNYT05

Total: 59 units of analysis

222 pages of text

Appendix D

Visuals of the Phases 1 through 3 of this Thematic Analysis



Martin Shkerli

The real problem with drug pricing in America is forged in a single word:

Valeant

Valeant

Don't Hate The Player – Hate the Game

Analogies

The Media

In the Twitter-storm furor over Turing's recent one-drug price gouge attempt, the media has overlooked the reality that **Martin Shkreli was created by the system.** Shkreli is merely a rogue trying to play the gambit that Valeant has perfected.

Actors?

Actors?

This article is not for you hedge fund managers who believe that this quarter's performance is more important than human decency or long-term viability; this article is for the millions of Americans who together can be strong enough to mandate change. Wall Street will understand in time.

Contrast

Extremes

X vs Y

While Citron Research analyzes the future viability of Valeant based on their highly levered portfolio of drugs, the main takeaway of this article is the danger that Valeant's corporate strategy jeopardizes the entire US pharmaceutical industry, and its status as a leader in the development of drugs for the entire medical system.

Trascendence

Systemic Drug Price Hikes ... Because they Can

Politicians

Lets us start with drug price hikes. Senator Sanders called attention to just two instances: heart drugs Isuprel and Nitropress.

Two specific drugs

Cleveland Clinic states price hikes for the two Valeant drugs unexpectedly adds $8.6 million, or 7%, to this year's budget of roughly $122 million for medicines administered at its hospitals ...

Pharmaceutical Companies Buy Rivals' Drugs, Then Jack Up the Prices

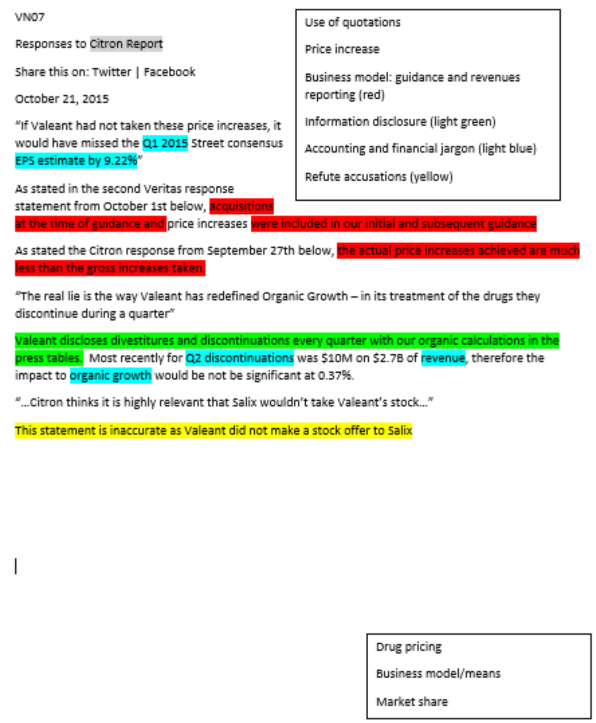
(WSJ 4/26/2015)

consequences

Sadly, these are but two examples of the whole truth. Citron Research is in the process of compiling a comprehensive dataset detailing drug price increases by Valeant. We will publish our findings on http://www.valeantpricing.com as soon as our research is conclusive. In the meantime here is an example of some of the more egregious increases:

Research Credibilit

Citron Exposes Valeant Sept 27, 2015 Page 2 of 11



VN07

Responses to Citron Report

Share this on: Twitter | Facebook

October 21, 2015

"If Valeant had not taken these price increases, it would have missed the Q1 2015 Street consensus EPS estimate by 9.22%"

As stated in the second Veritas response statement from October 1st below, acquisitions at the time of guidance and price increases were included in our initial and subsequent guidance

As stated the Citron response from September 27th below, the actual price increases achieved are much less than the gross increases taken.

"The real lie is the way Valeant has redefined Organic Growth – in its treatment of the drugs they discontinue during a quarter"

Valeant discloses divestitures and discontinuations every quarter with our organic calculations in the press tables. Most recently for Q2 discontinuations was $10M on $2.7B of revenue, therefore the impact to organic growth would be not be significant at 0.37%.

"...Citron thinks it is highly relevant that Salix wouldn't take Valeant's stock..."

This statement is inaccurate as Valeant did not make a stock offer to Salix

Use of quotations

Price increase

Business model: guidance and revenues reporting (red)

Information disclosure (light green)

Accounting and financial jargon (light blue)

Refute accusations (yellow)

Drug pricing

Business model/means

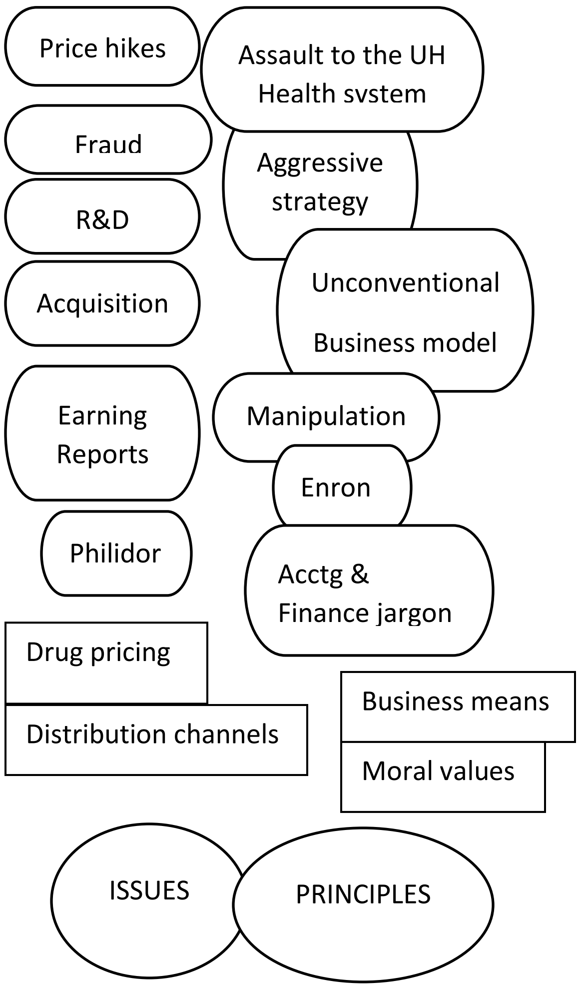
Market share

Phase 1: Marginal remarks

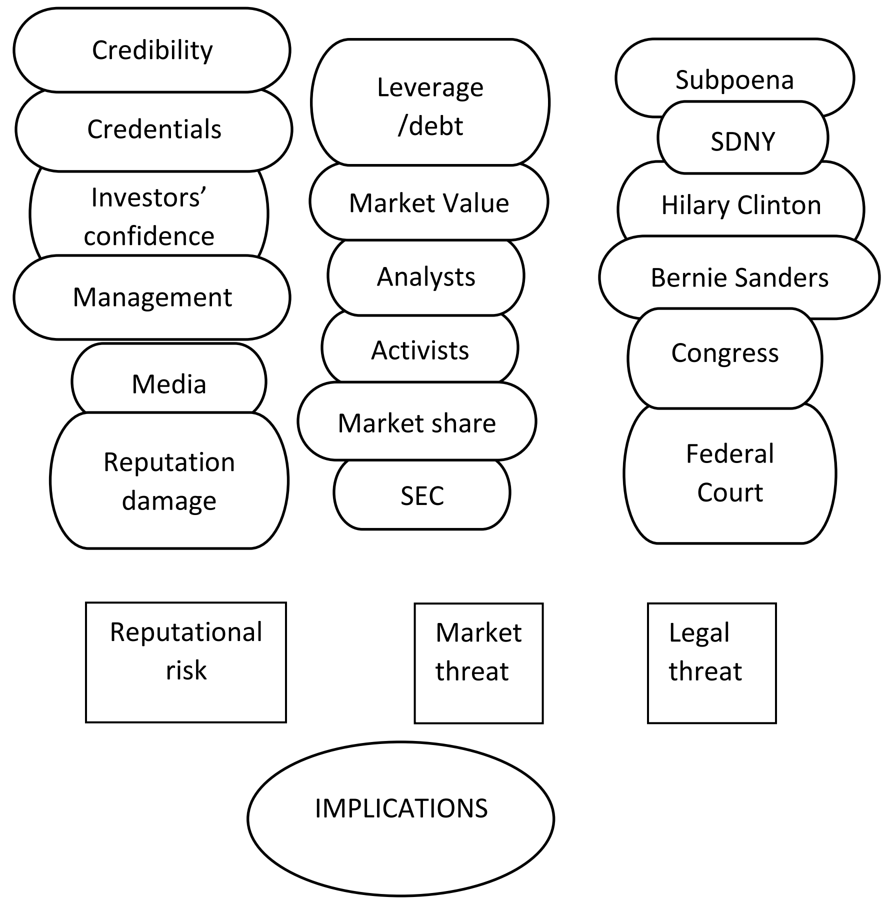
Phases 2 and 3: Coding and Themes

Appendix E

Thematic Map of the Analysis (phase 4)



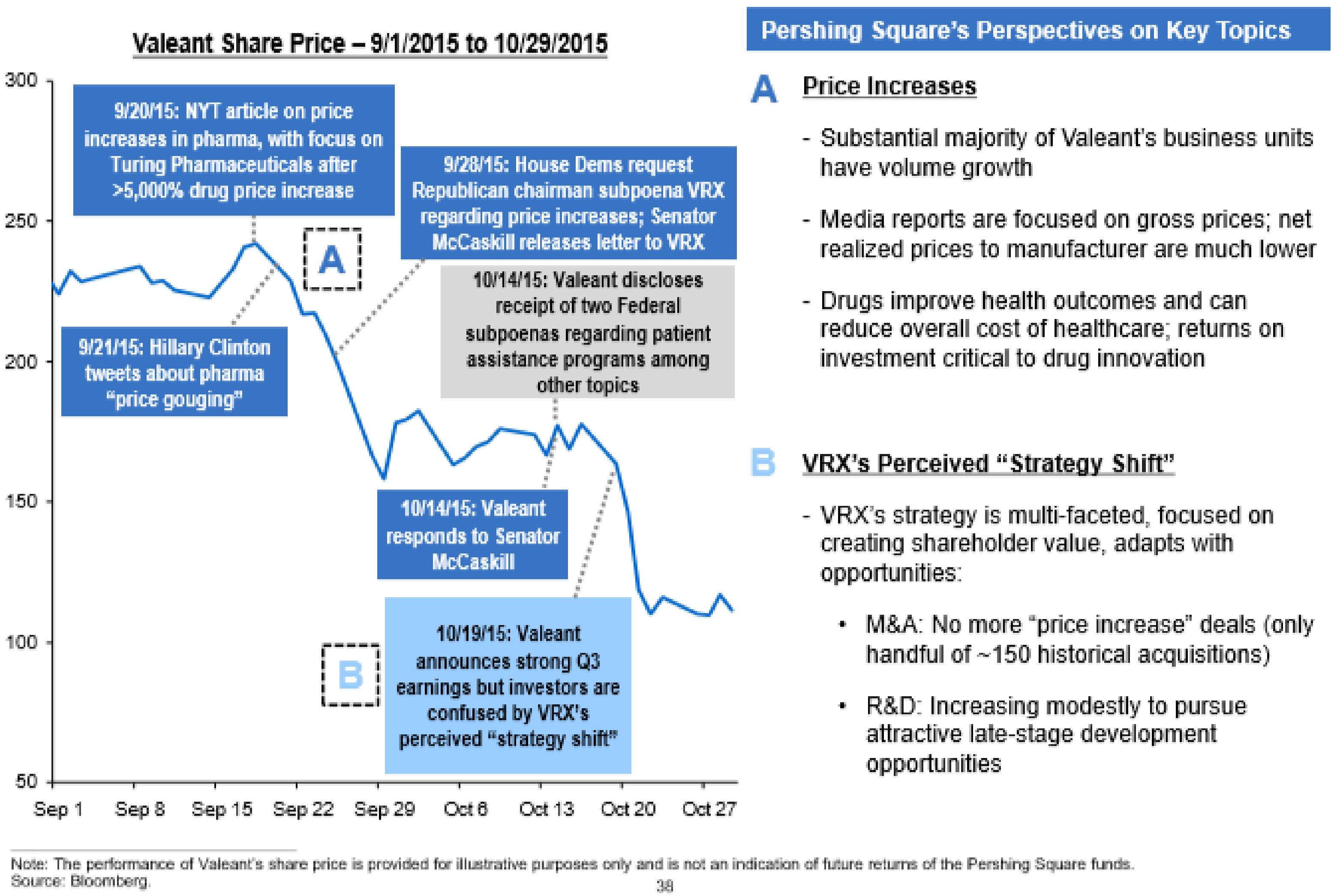
Stretching Boundaries vs. Gaming the system



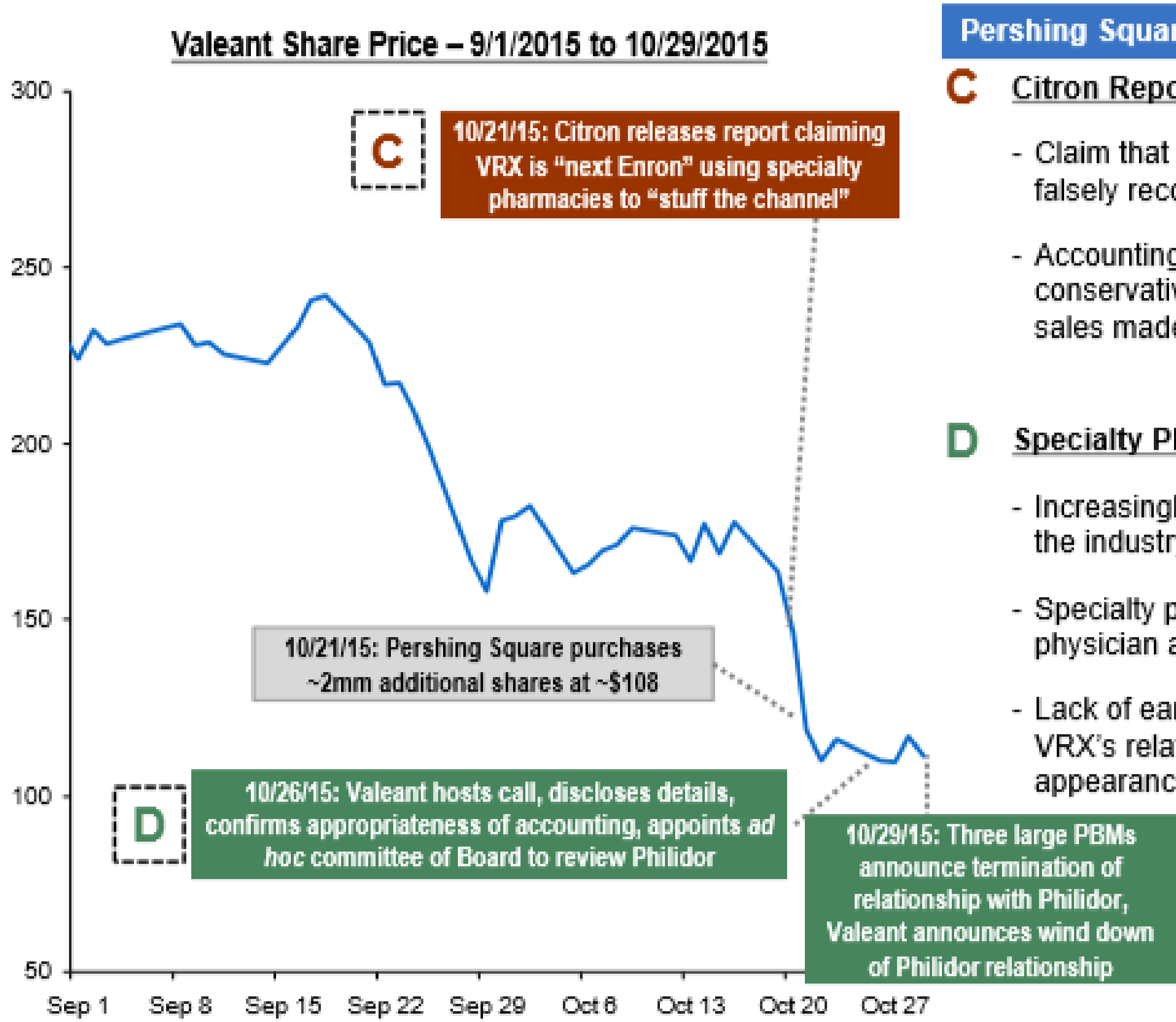
The Key Factors in the Wall Street Brawl

Appendix F

Pershing Square 2016 Annual Update Presentation. Valeant Events



Pershing Square 2016 Annual Update Presentation. Valeant Events



Pershing Square's Perspectives on Key Topics

C Citron Report

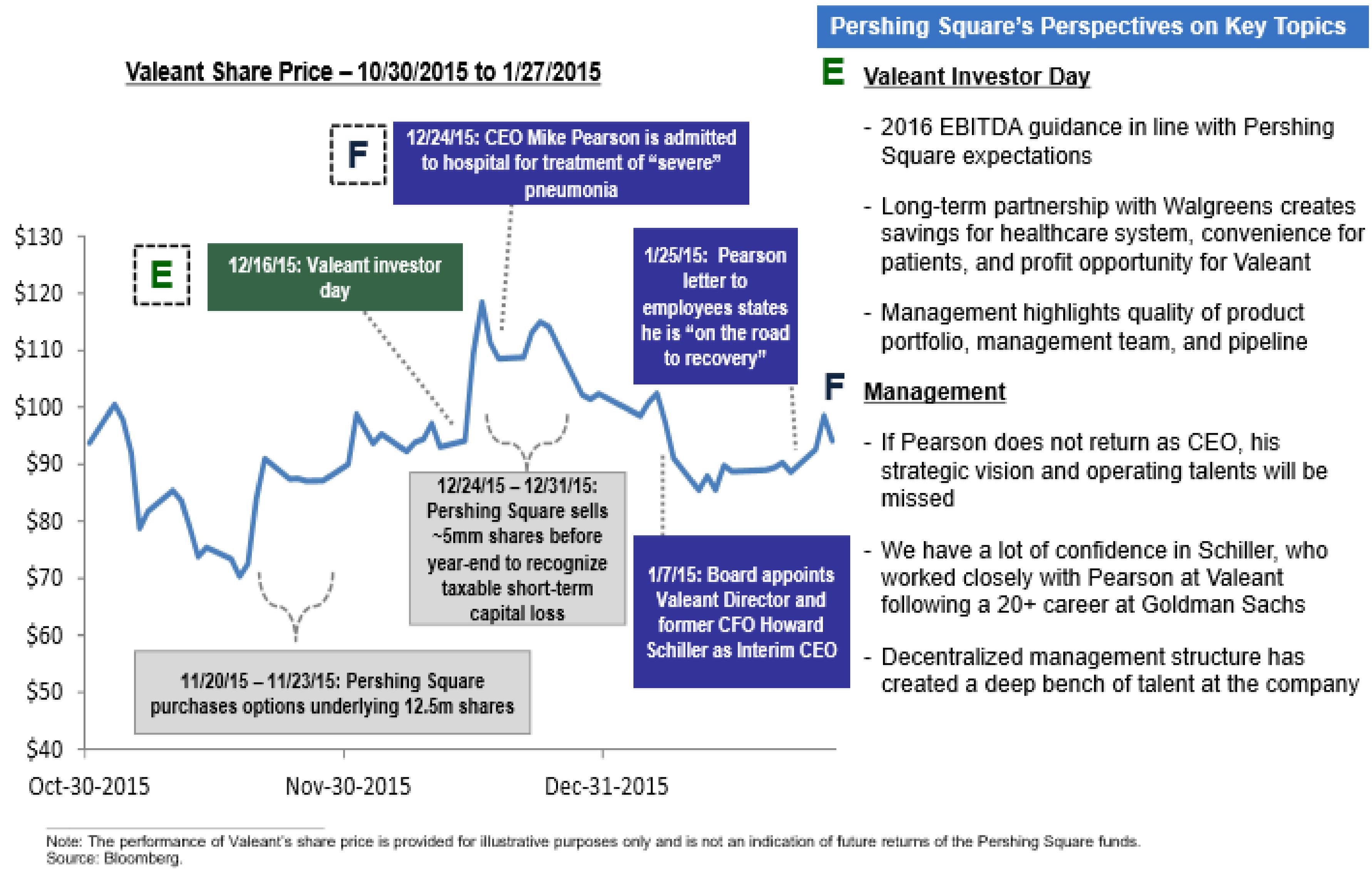
- Claim that VRX "stuffed the channel" and falsely recognized revenue is verifiably false
- Accounting for sales to Philidor is more conservative than accounting rules applied for sales made to "traditional" distributors

D Specialty Pharmacies / Philidor

- Increasingly important distribution channel for the industry
- Specialty pharmacies improve patient and physician access to medications
- Lack of early disclosure and details regarding VRX's relationship with Philidor created appearance of malfeasance

Note: The performance of Valeant's share price is provided for illustrative purposes only and is not an indication of future returns of the Pershing Square funds.
Source: Bloomberg.

Pershing Square 2016 Annual Update Presentation. Valeant Events



References

Abegbite, E., Amaeshi, K., & Amao, O. (2012). The politics of shareholder activism in Nigeria. *Journal of Business Ethics*, *105*(3), pp. 389-402.

Activist Insight (2017). *The Activist Investing Annual Review 2017*. Retrieved from https://www.activistinsight.com/amp/issues/TheActivistInvestingAnnualReview2017.pdf

Atakan-Duman, S., & Ozdora-Aksak, E. (2014). The role of corporate social responsibility in online identity construction: An analysis of Turkey's banking sector. *Public Relations Review, 40*, 862-864.

Benoit, D., & Monge, V. (2015, October 5). Are activist investors helping or undermining American companies? Journal examines 71 campaigns at big companies, finds runaway winners, a few duds. *The Wall Street Journal.* Retrieved from http://search.proquest.com.ezproxy.lib.uh.edu/docview/1719015802?OpenUrlRefId=info:xri/sid:primo&accountid=7107

Botan, C., & Hazleton, V. (2006). “Public relations in a new age”. In C. Botan and V. Hazleton (Eds.), *Public Relations Theory II* (pp. 1-18). Mahwah, NJ: Routledge.

Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology, 3*, 77-101.

Broom, G., & Sha, B-L. (2013). *Cutlip & Center’s effective public relations* (11th ed.). Upper Saddle River, NJ: Pearson.

Chandler, C. (2014). Investor relations from the perspective of CEOs. *Journal of Strategic Communication, 8*, 160-176.

Citron Research. (2017). *About Citron Research*. Retrieved from http://www.citronresearch.com/who-is-citron-research/

CNN (2017). *Markets Money: Valeant Pharmaceuticals International*. Retrieved from http://markets.money.cnn.com/research/quote/shareholders.asp?symb=VRX&subView=institutional

Cyran, R. (2017, January 10). How Valeant had a bright idea but took it too far. *The New York Times.* Retrieved from https://www.nytimes.com/2017/01/10/business/dealbook/how-valeant-had-a-bright-idea-but-took-it-too-far.html?_r=0

Darmon, K., Fitzpatrick, K. & Bronstein, C. (2008). Krafting the obesity message: A case study in framing and issues management. *Public Relations Review, 34*(4), 373-379.

Daymon, C., & Holloway, I. (2011). *Qualitative research methods in public relations and marketing communications* (2nd ed.). New York, NY: Routledge.

De Bakker, F., & Den Hond, F.D. (2008). Activists' influence tactics and corporate policies. *Business Communication Quarterly*, *71*(1), 107-111.

Den Hond, F.D., & De Bakker, F. (2007). Ideologically motivated activism: How activist groups influence corporate social change activities. *Academy of Management Review*, *32*(3), 901-924.

Doan, M.A., & McKie, D. (2017). Financial investigations: Auditing research accounts of communication in business, investor relations, and public relations (1994-2016). *Public Relations Review*. In press.

Dominic, D., Stubenrath, M., & Weber, C. (1999). A survey on the use of Internet for investor relations in the USA, the UK, and Germany. *The European Accounting Review, 8*(2), 351-364.

Esterhuyse, L. & Wingard, C. (2016). An exploration of the online investor relations (IR) practices of companies listed on the Johannesburg Stock Exchange (JSE). *South African Journal of Economic & Management Sciences*, *19*(2), 215-231.

Goldstein, M., Stevenson, A., & Eavis, P. (2015, October 21). Valeant's shares fall on report's fraud claim. *The New York Times*. Retrieved from https://www.nytimes.com/2015/10/22/business/dealbook/valeants-shares-fall-on-reports-fraud-claim.html

Guth, D.W., & Marsh, C. (2005). *Adventures in public relations. Case studies and critical thinking*. Boston, MA: Pearson.

Grunig, L.A. (1992). "Power in the public relations department". In J.E. Grunig (Ed.), *Excellence in public relations and communications management* (pp. 483–501). Hillsdale, NJ: Lawrence Erlbaum Associates, Inc.

Grunig, J. (2009). Paradigms of global public relations in an age of digitalization. *PRism, 6*(2), 1-19.

Hedlin, P. (1999). The internet as a vehicle for investor relations: The Swedish case. *The European Accounting Review, 8*(2), 373-381.

Hoffmann, A, Tutic, A., & Wies, S. (2011). The role of educational diversity in investor relations. *Corporate Communications: An International Journal*, *16*(4), 311-327.

Hoffmann, C., & Fieseler, C. (2012). Investor relations beyond financials. Non-financial factors and capital market image building. *Corporate Communications: An International Journal*, *17*(2), 138 -155.

Hong, Y., & Ki, E-J. (2007). How do public relations practitioners perceive investor relations? An exploratory study. *Corporate Communications: An International Journal*, *12*(2), 199-213.

Hopkins, J., & Armstrong, D. (2016, December 16). Valeant's 2016 has been all pain, no gain amid record stock drop. *Bloomberg.* Retrieved from https://www.bloomberg.com/news/articles/2016-12-16/valeant-s-2016-has-been-all-pain-no-gain-amid-record-stock-drop

Hutchins, H.R. (2005). "Investor relations". In R. Heath (Ed.), Encyclopedia of public relations. Volume 1 (447-452). Thousand Oaks, CA: Sage.

Jaques, T. (2004). Issue definition: The neglected foundation of effective issue management. *Journal of Public Affairs, 4*(2), 191-200.

Kelly, K., Laskin, A., & Rosenstein, G. (2010). Investor relations: Two-way symmetrical practice. *Journal of Public Relations Research, 22*(2), 182-208.

Kiousis, S., Popescu, C., & Mitrook, M. (2007). Understanding influence on corporate reputation: An examination of public relations efforts, media coverage, public opinion, and financial performance form an agenda-building and agenda-setting perspective. *Journal of Public Relations Research, 19*(2), 147-165.

Koons, C. (2017, February 28). Valeant's declining sales show turnaround has long way to go. *Bloomberg*. Retrieved from https://www.bloomberg.com/news/articles/2017-02-28/valeant-earnings-beat-estimates-as-ceo-papa-pursues-turnaround

Langley, M. (2015, November 05). Activist investor Bill Ackman plays defense; with both $2 billion losses on Valeant, Mr. Ackman struggles to salvage his big bet. The Wall Street Journal. Retrieved from http://search.proquest.com.ezproxy.lib.uh.edu/docview/1729563298?OpenUrlRefId=info:xri/sid:primo&accountid=7107

Laskin, A. (2009). A descriptive account of the investor relations profession. A national study. *Journal of Business Communication*, *446*(2), 208-233.

Laskin, A. (2010). "Investor relations". In R. Heath (Ed.), *The Sage handbook of public relations* (pp. 611-621). Thousand Oaks, CA: Sage.

Laskin, A. (2014). Investor relations as a public relations function: A state of the profession in the United States. *Journal of Public Relations Research*, *26*, 200-214.

Laskin, A. (2016). Nonfinancial information in investor communications. *International Journal of Business Communication, 53*(4), 375-397.

Lee, R. & Schloetzer, J. (2014). The activism of Carl Icahn and Bill Ackman. The Conference Board's Director notes. *Harvard Law School Forum on Corporate Governance and Financial Regulation.* Retrieved from https://corpgov.law.harvard.edu/2014/05/29/the-activism-of-carl-icahn-and-bill-ackman/

Levy, R. (2017, March 13). One stock helped decimate Bill Ackman's hedge fund performance. *Business Insider.* Retrieved from http://www.businessinsider.com/bill-ackman-valeant-bet-hurts-hedge-fund-pershing-square-2017-3

Mahoney, W.F. (1991). *Investor relations: The professional's guide to financial marketing and communications*. New York: NY: New York Institute of Finance.

Mitchell, R., Agle, B., & Wood, D. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *The Academy of Management Review, 22*(4), 853-886.

National Investor Relations Institute. (2016). *Definition of investor relations*. Retrieved from https://www.niri.org/about-niri

Penning, T. (2011). The value of public relations in investor relations: Individual investors' preferred information types, qualities, and sources. *Journalism & Mass Communication Quarterly, 88*(3), 615-631.

Pershing Square Holdings. (2016). *Annual Update Presentation.* Retrieved from http://assets.pershingsquareholdings.com/2014/09/2015-PSH-Annual-Update-Presentation.pdf

Perrault, E. (2015). Why does board gender diversity matter and how do we get there? The role of shareholder activism in desinstitutionalizing old boy's networks. *Journal of Business Ethics, 128*(1), 149-165.

Ragas, M. (2013). Agenda building during activist shareholder campaigns. *Public Relations Review, 39*, 219-221.

Ragas, M., & Laskin, A. (2014). Mixed-methods: measurement and evaluation among investor relations officers. *Corporate Communications: An International Journal*, *19*(2), 166 – 181.

Ragas, M., Laskin, A., & Brusch, M. (2014). Investor relations measurement: an industry survey. *Journal of Communication Management, 18*(2), 176 – 192.

Ragas, Kim, & Kiousis (2011). Agenda-building in the corporate sphere: Analyzing influence in the 2008 Yahoo!-Icahn proxy contest. *Public Relations Review*, *37*, 257-265.

Ramsey, L., & Kiersz, A. (2017, March 14). Valeant's collapse—from Clinton's tweet to Ackman's exit. *Finance Yahoo*. Retrieved from http://finance.yahoo.com/news/valeants-downfall-illustrated-stock-chart-121300749.html;_ylc=X1MDMTE5Nzc4NDE4NQRfZXgDMQRfeXJpZAMxdXNnZzc5Y2NmbzNhBGcDZFhWcFpEeHVjejVtWTJKbVpESXdZaTFpTURBMkxUTTFNVFF0WVdVMVppMW1OMkpqTjJWbU5EWTBOems4Wm1sbGJHUStkbko0BGxhbmcDZW4tVVMEb3JpZ19sYW5nA2VuBG9yaWdfcmVnaW9uA1VTBHBvcwMwBHJlZ2lvbgNVUwRzeW1ib2wDVlJY?.tsrc=applewf

Renick, O. (2015, October 30). "How crazy is that?": Left dismisses Ackman's Valeant defense. *Bloomberg.* Retrieved from https://www.bloomberg.com/news/articles/2015-10-30/-how-crazy-is-that-left-dismisses-ackman-s-valeant-defense

Richards, R. (1986). *The Down Jones-Irwin Dictionary of Financial Planning*. Homewood, IL: Dow Jones-Irwin.

Ryan, T., & Jacobs, C. (2005). *Using investor relations to maximize equity valuation*. Hoboken, NJ: Wiley.

Smith, M. (2005). “Activism”. In R. Heath (Ed.), *Encyclopedia of Public Relations* (5-8). Thousand Oaks, CA: Sage.

Smith, M., & Ferguson, D. (2010). “Activism 2.0”. In R. Heat (Ed.), *The Sage Handbook of Public Relations* (pp. 395-407). Thousand Oaks, CA: Sage.

Swanson, E., & Young, G. (2017). Are activist investors good or bad for business? Evidence from capital market prices, informed traders, and firm fundamentals. Texas A&M University Research Paper Mo. 2823067.

Stevenson, A. (2015, November 23). William Ackman raises Valeant stake to 9.9% from 5.7%. *The New York Times*. Retrieved from https://www.nytimes.com/2015/11/24/business/dealbook/william-ackman-raises-valeant-stake-to-9-9-from-5-7.html

Stevenson, A. (2017, March 29). Valeant bet was a ‘huge mistake,’ hedge fund chief Ackman says. *The New York Times*. Retrieved from https://www.nytimes.com/2017/03/29/business/dealbook/valeant-bet-was-a-huge-mistake-hedge-fund-chief-ackman-says.html?_r=0

Tan, G. (2016, January 13). Shorting shareholder activism. *Bloomberg*. Retrieved from https://www.bloomberg.com/gadfly/articles/2016-01-13/morgan-stanley-s-kindler-says-activism-peaked

The IFR Financial Glossary. (1988). London: IFR Publishing.

The New York Times (2017, April 7). Analysis Tools. Valeant Pharmaceuticals Internationals. Retrieved from https://markets.on.nytimes.com/research/stocks/tools/analysis_tools.asp?symbol=26796696

Thomas, K., & Goldstein, M. (2016, November 17). Former drug industry executives charged in kickback scheme. *The New York Times*. Retrieved from https://www.nytimes.com/2016/11/18/business/valeant-philidor-fraud-kickback-scheme.html?_r=0

Tuckett, A. (2005). Applying thematic analysis theory to practice: A researcher's experience. *Contemporary Nurse*, *19*, 75-87.

Uysal, N. (2014). The expanded role of investor relations: Socially responsible investing, shareholder activism, and organizational legitimacy. *International Journal of Strategic Communication, 8*, 215-230.

Valeant. (2015, October 06). *Form 8-K. Exhibit EX-99.1*. Retrieved from https://www.sec.gov/Archives/edgar/data/885590/000119312515337744/d83478dex991.htm

Valeant. (2017a). *Valeant Now*. Retrieved from http://www.valeantnow.com/

Valeant. (2017b). *Investor Relations*. Retrieved from http://ir.valeant.com/

Valeant. (2017c). *About Us*. Retrieved from http://www.valeant.com/about

Valeant. (2017, March 17). *Form 8-K. Current Report.* Retrieved from https://www.sec.gov/Archives/edgar/data/885590/000095010317002563/dp74141_8k.htm

Valeant. (2017, March 31). *Form 10-Q. SEC Quarterly Report*. Retrieved from https://www.sec.gov/Archives/edgar/data/885590/000088559017000040/valeantq12017.htm

Wimmer, R., & Dominick, J. (2014). Mass media research. An Introduction (10th ed.).

Boston, MA: Cengage Learning.

Wirz, M. (2015, October 23). The ‘short’ who sank Valeant stock. Andrew Left has long targeted firms that he thinks are overvalued or engaged in fraud. *The Wall Street Journal.* Retrieved from https://www.wsj.com/articles/the-short-who-sank-valeant-stock-1445557157

Yanjie, F. & Wan, T. (2012). Website based investor relations: a comparison between developed and developing economies. *Online Information Review*, *37*(6), 946-968.